MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 1 April 2019

Key Themes

The rebound in the official China NBS Manufacturing PMI for Mar set a positive tone for the week. The underlying drivers of expansion suggest that improvements in production and new orders signal that measures to stimulate may be starting to impact activity. Of note was the Caixin Manufacturing PMI which reported a 'significant' improvement in manufacturing employment.

In the US, a slower pace of manufacturing activity over the last four months was confirmed by the latest ISM. The business inventories report highlighted the growing build-up in inventories through the distributive trade channels – especially merchant wholesalers. Also of note was the more downbeat reports on services growth via both the Markit and ISM PMI's.

The Feb retail sales indicated consumer spending remained subdued. This was partly confirmed by the continued slower growth in consumer credit, especially in the last 3-months to Feb. The rebound in motor vehicle sales in Mar (the more recent of the reports) suggests a more positive outlook for spending - in line with the improvements in consumer sentiment.

Non-farm payrolls rebounded in Mar. The household survey shows that over the last year, total employment has grown faster than what both population and participation have added to the labour force. As a result, the number of total unemployed persons continue to decline. Of note though is that participation growth has stalled, and employment growth has slowed.

Data from Europe and Asia continues to indicate weakness in manufacturing across key economies. The decline in new factory orders in Germany accelerated in Feb – led mostly by falls in foreign new orders but domestic orders also declined. Headline German industrial production grew in Feb but production in manufacturing continued to decline across most industry categories. Japanese manufacturing activity continued to contract, while services growth remained steady at more moderate levels.

The RBA kept rates on hold. Signalling from the latest statement suggests that RBA may no longer be 'on-hold' at future meetings. Stronger growth in retail sales may allay fears that continued falls in house prices are impacting spending. The govt budget featured a forecast return to surplus in the '19-20 financial year and spending measures included some stimulus in the form of tax cuts and cash payments for some households. A date for the election is yet to be called but is expected by late May.

Contents

US Data - Retail Sales (Feb), Motor Vehicle Sales (Mar), Challenger Job Cut Report (Mar), Employment Situation/Non-Farm Payrolls (Mar), Consumer Credit (Feb)

Manufacturing PMI (Mar), Durable Goods Orders (Advance Factory Orders) (Feb), Business Inventories (Jan), ISM Manufacturing Index (Mar), Services PMI (Mar), ISM Non-Manufacturing Index (Mar)

Europe - Germany Manufacturing PMI (Mar), Eurozone Manufacturing PMI (Mar), Germany Services PMI (Mar), Eurozone Services PMI (Mar), Eurozone Retail Sales (Feb), Germany Factory Orders (Feb), Germany Industrial Production (Feb)

Japan – Manufacturing PMI (Mar), Services PMI (Mar)

United Kingdom – Brexit, Manufacturing PMI (Mar) Services PMI (Mar)

Australia – RBA Rates Decision, Retail Sales (Feb)

China – NBS Official Manufacturing PMI (Mar), Caixin Manufacturing PMI's (Mar), Caixin Services PMI (Mar)

Trade – US-China Trade Negotiations, Special 2019 S.301 Review, NAFTA/USMCA, S.232 Car and Truck Imports, US-Japan Trade Talks, US-Europe Trade Talks, US-UK Trade Talks

US Data

Retail Sales (Feb)

Retail sales fell in Feb mostly as a result of a large fall in sales of Building Materials and Garden Equipment (which contributed most of the decline) as well as a fall in Food and Bev store sales and General Merchandise Store sales. Motor Vehicle sales rebounded slightly in Feb after falling in Jan. The annual change in retail sales both headline and ex Autos & gas slowed.

<u>Headline Retail Sales – mth % chg</u>

Feb -0.2% versus Jan +0.7% (Jan revised higher from +0.2% in the advance report)

The largest contributors to growth this month were motor vehicle parts and dealers (adding +0.138% pts to growth) and Non-store retailers (adding +0.1%pt to growth). Sales of Gasoline Stations increased by +1% after declining by -1.2% in the month prior.

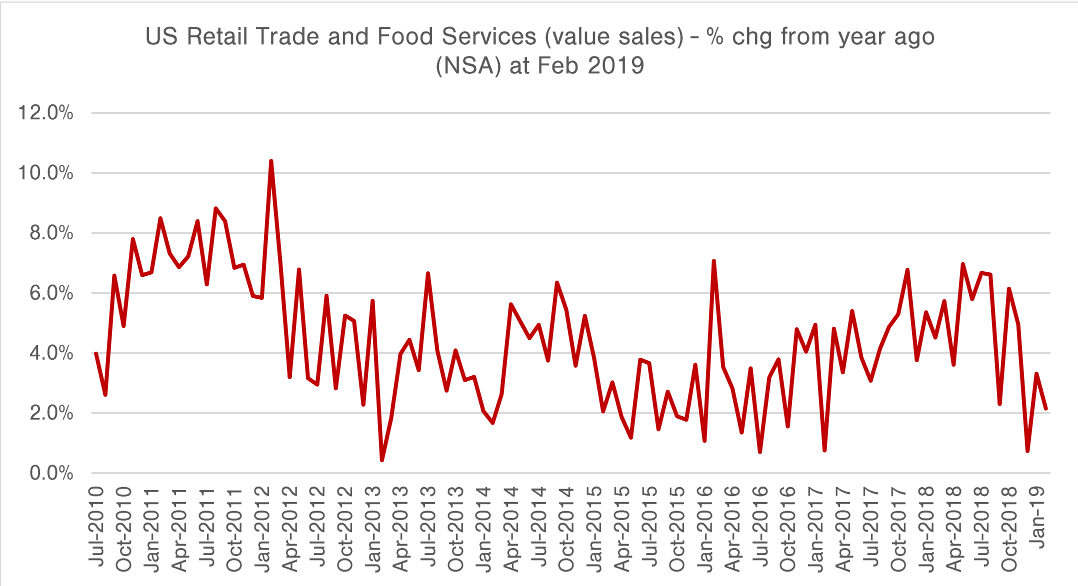
Detracting the most from growth and driving the overall retail decline, was a -4.4% fall in Building Materials & Garden Equip sales, detracting -0.3% pts from the headline growth. In the month prior, Building Supplies grew by +4.4%.

Of the other larger categories, Food & Bev Store sales also declined, falling by -1.2% and General Merchandise Store sales also declined slightly by -0.3%.

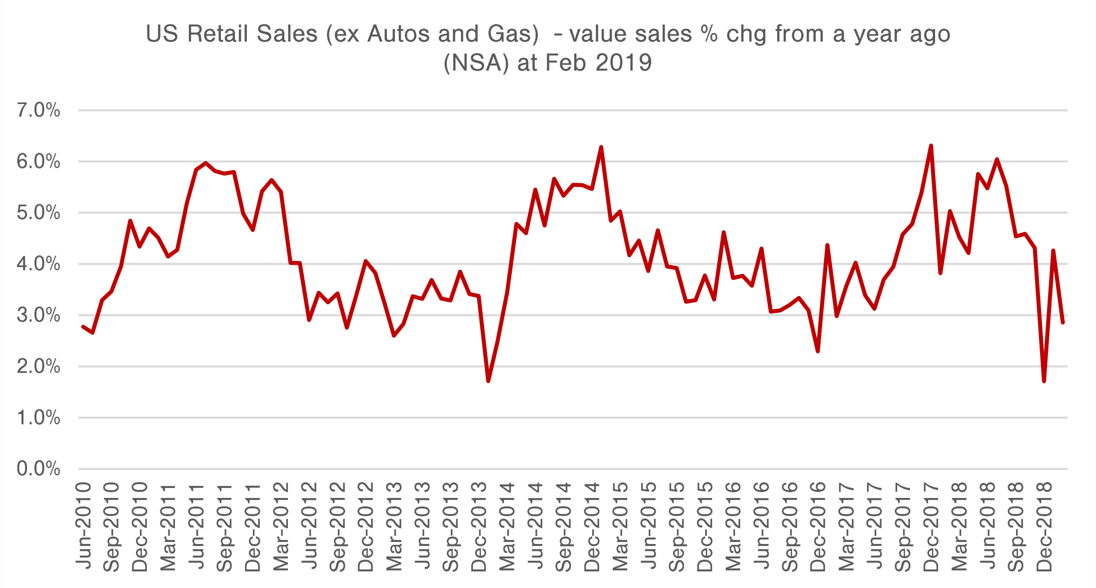
Retail sales ex Autos' & Gas declined by a larger % due to the positive results in Autos & Gas this month; Feb -0.6% versus Jan +1.7%

<u>Annual % chg Retail Sales - % chg versus same mth prior year</u>

Headline Retail Sales; Feb +2.2% versus Jan +3.3%



Retail Sales ex Auto's and Gas; Feb +2.9% versus Jan +4.3%



https://www.census.gov/retail/index.html

Motor Vehicle Sales (Mar)

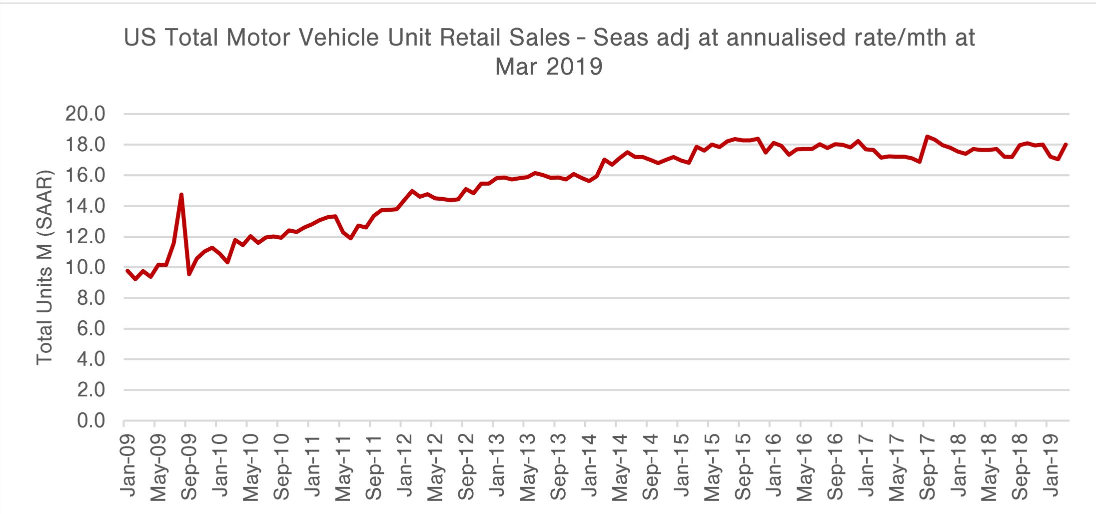
Motor vehicle sales rebounded in Mar and seem to have tracked the improvement in consumer sentiment for the month.

Total Motor Vehicle Sales

Mar +5.7% versus Feb -1.1%

Total sales reached a seas adj annual of 18m units – which is 18% below the peak of 22.06m units.

Total sales remain 2% below the same time a year ago.

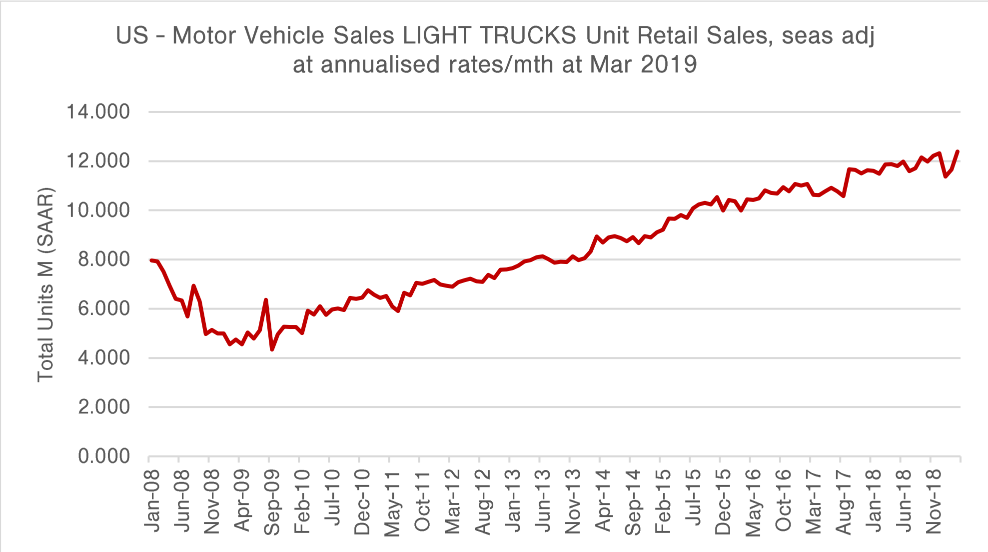


This month, both Autos and Light trucks (SUV's) contributed to the growth.

Light Truck Sales; Mar +6.2% versus Feb +2.5%

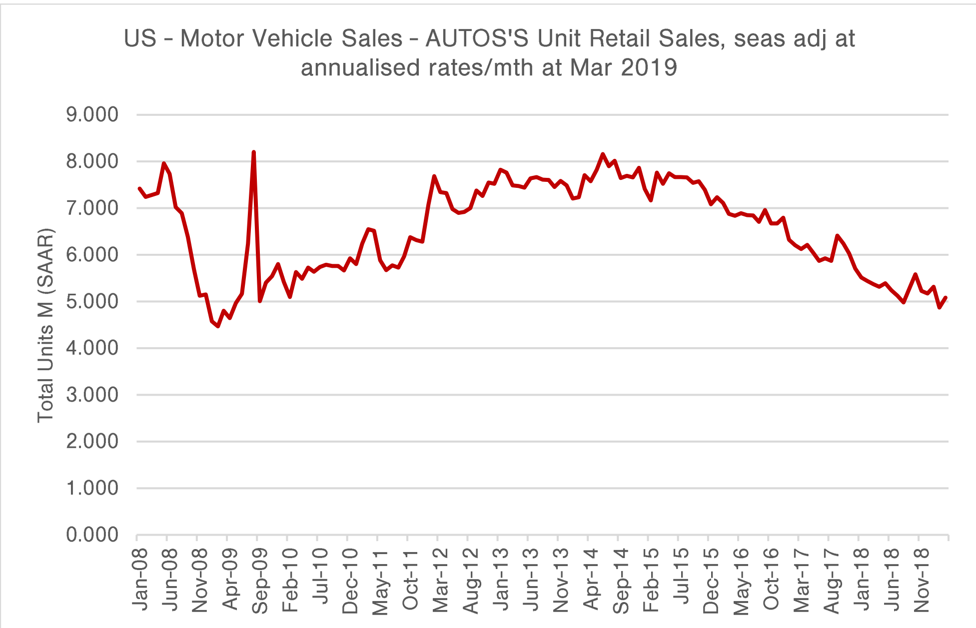
Light truck sales have rebounded over the last two months to 12.4m units (SAAR) and are now only 2% below the all-time high seas adj ann rate of 12.59m units.

Sales of Light trucks remain 1% ahead of the same time last year.



Auto Sales; Mar +4.4% versus Feb -8.3%

Auto sales continue to slow. The current SAAR rebounded back to 5.1m units in Mar which is only 14% above the all-time low minimum. On an annual basis, Auto sales are 8% below the year prior.



https://www.bea.gov/docs/gdp/auto-and-truck-seasonal-adjustment

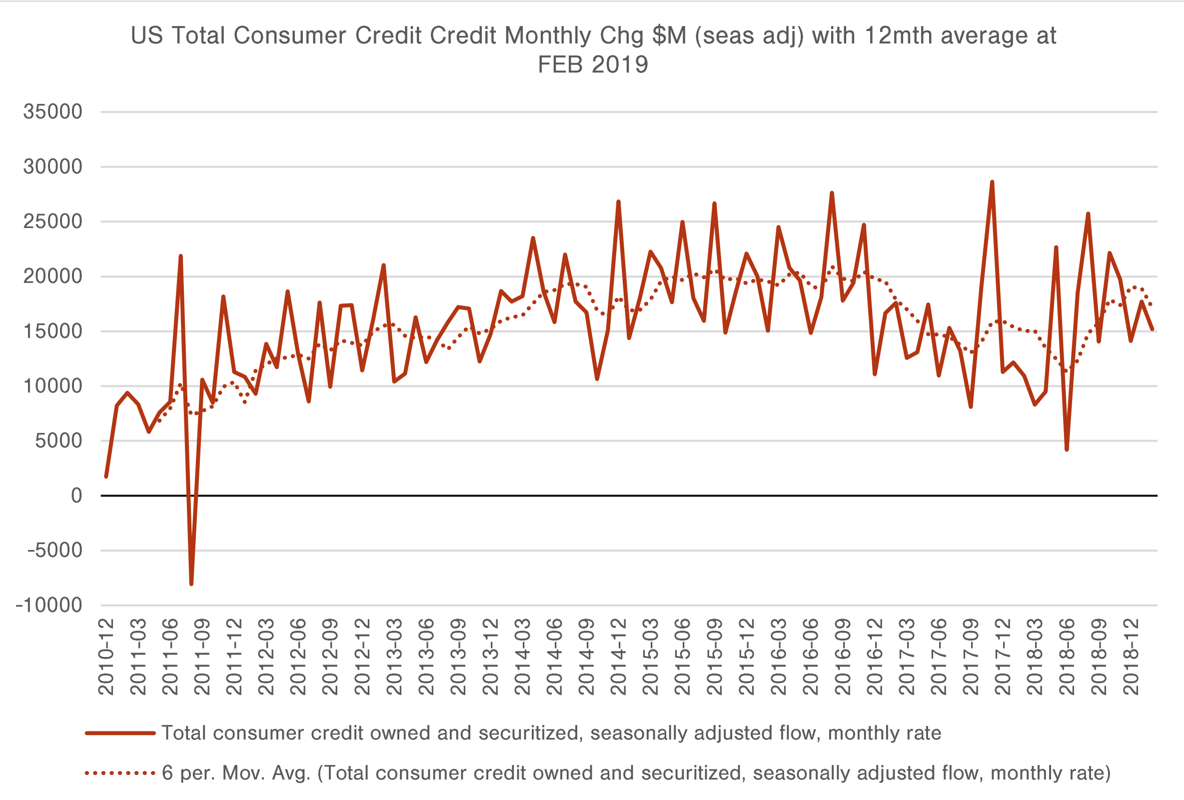
Consumer Credit (Feb)

Total US consumer credit grew at a slower pace in the latest month. Growth in revolving credit was steady in the latest month but growth has halved over the last 3-months versus the 3-months prior and likely a factor contributing to the weaker retail sales growth. Non-revolving credit grew at a slower pace but growth over the last 3-months versus the 3-months prior has remained unchanged.

Total Consumer Credit; Feb +$15.2bn versus Jan +$17.7bn. Annual change in the level of outstanding consumer credit; +5% (at Feb 2019).

Growth in total consumer credit has been slowing. The pace of credit growth over the last rolling 3-months remains below the three months prior; 3months to Feb +$47bn versus 3-months to Nov +$55.9bn.

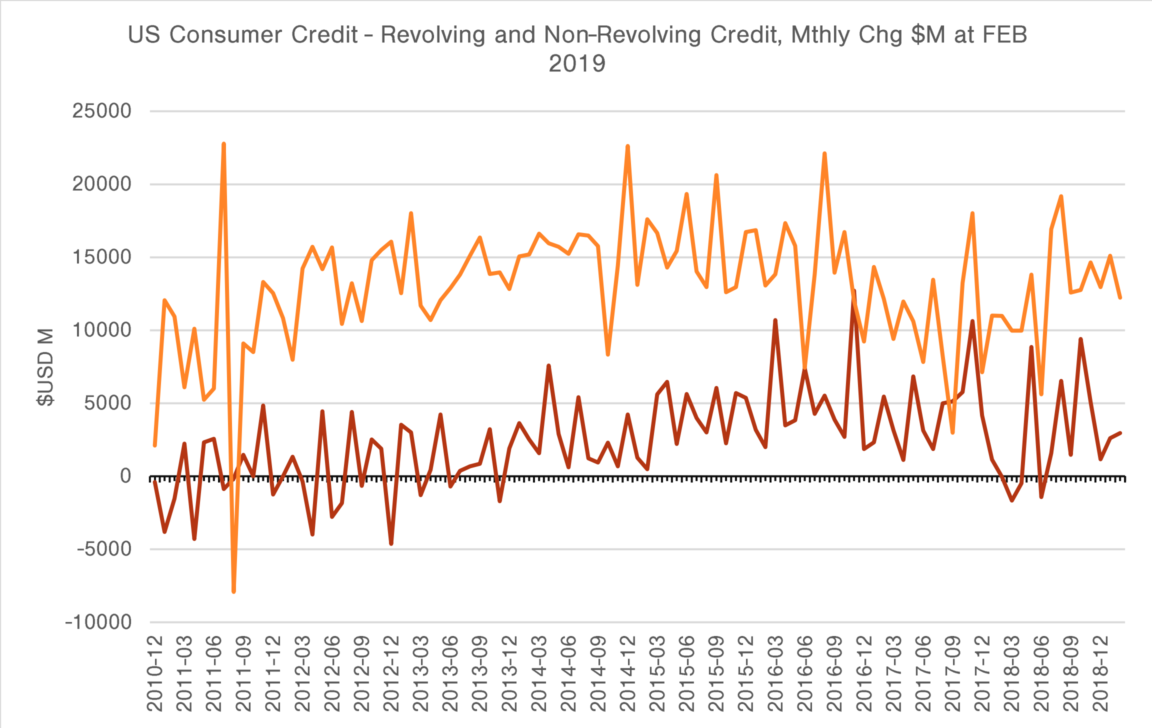
This remains below the 12-month moving average and below the peaks reached around mid-2018;



The two main parts of total consumer credit are revolving (credit card) and non-revolving debt (loans including student and auto – updated only on a quarterly basis).

Revolving credit; Feb +$2.9bn versus Jan +$2.6bn. The annual growth in outstanding revolving credit is +3.5%. This is well below the higher rates of credit card growth of closer to +6% recorded in mid-2017. The growth in revolving credit over the last three months has halved versus the 3-months prior; 3-mths to Feb +$6.7bn versus 3-mths to Nov +$15.9bn

Non-revolving credit; Feb +$12.2bn versus Jan +$15.1bn. The annual growth in outstanding non-revolving credit is +5.5% as of Feb. Growth in non-revolving credit over the last 3-months has remained virtually unchanged; 3-mths to Feb +$40.3bn versus 3-mths to Nov +$40bn.



https://www.federalreserve.gov/releases/g19/Current/

Challenger Job Cut Report (Mar)

Job cut announcements were lower in Mar than in Feb and were on par with the same month a year ago. This rounds out the Q1 total and job cut announcements are running 35% ahead of Q1 2018.

Announcements of job cuts are elevated across industrial goods, automotive, energy, retail and health care/products. Only in retail and automotive are hiring plans offsetting job cut announcements in the YTD.

Planned hiring announcements were on par with the month prior.

Job-cut Announcements;

Mar 60.6k versus Feb 76.8k job cut announcements

Q1 190.4k versus Q1 2018 140.4k job cut announcements

This is the largest Q1 total since 2009 but is just below the average for Q1 going back to 1989.

Job cuts by reason; the top three reasons for job cut announcements in the YTD are restructuring (26%), bankruptcy (21%) and closing (14%).

Merging both the job cut announcements with hiring announcements provides somewhat more balance to the industry specific data;

Industries; at the end of Q1, the following industries account for the bulk of the job cut announcements. The HIRING plans are added where applicable.

Industrial Goods; YTD +34.1k (versus YTD 2018 +3.7k) job cut announcements. This is only partly off-set by YTD hiring announcements of +1.1k.

Automotive; YTD 15.9k (versus YTD 2018 +4.5K) job cut announcements. This is offset by +18k job hiring announcements for the YTD 2019.

Retail is running just below YTD 2018 job cut announcements but is still a large number; YTD +46k (versus YTD 2018 +56k). This is offset by announced hiring plans YTD of 66.7k jobs.

Health care; YTD 10.9k (versus YTD 2018 +12.5k) job cut announcements. This is only partly offset by announced hiring plans of +4k YTD.

Transportation; YTD +10.1k (versus YTD 2018 +6k) job cut announcements. This partly offset by hiring plans of +3k jobs.

Consumer products and Services industries are running well below the larger job cut announcements from the year prior.

Total Hiring Announcements

Mar +16k versus Feb +15.3k

YTD +105k

The YTD hiring announcements are offsetting some of the larger job cut announcements in industries such as automotive and retail.

http://www.challengergray.com/tags/job-cut-report

Employment Situation and Non-Farm Payrolls (Mar)

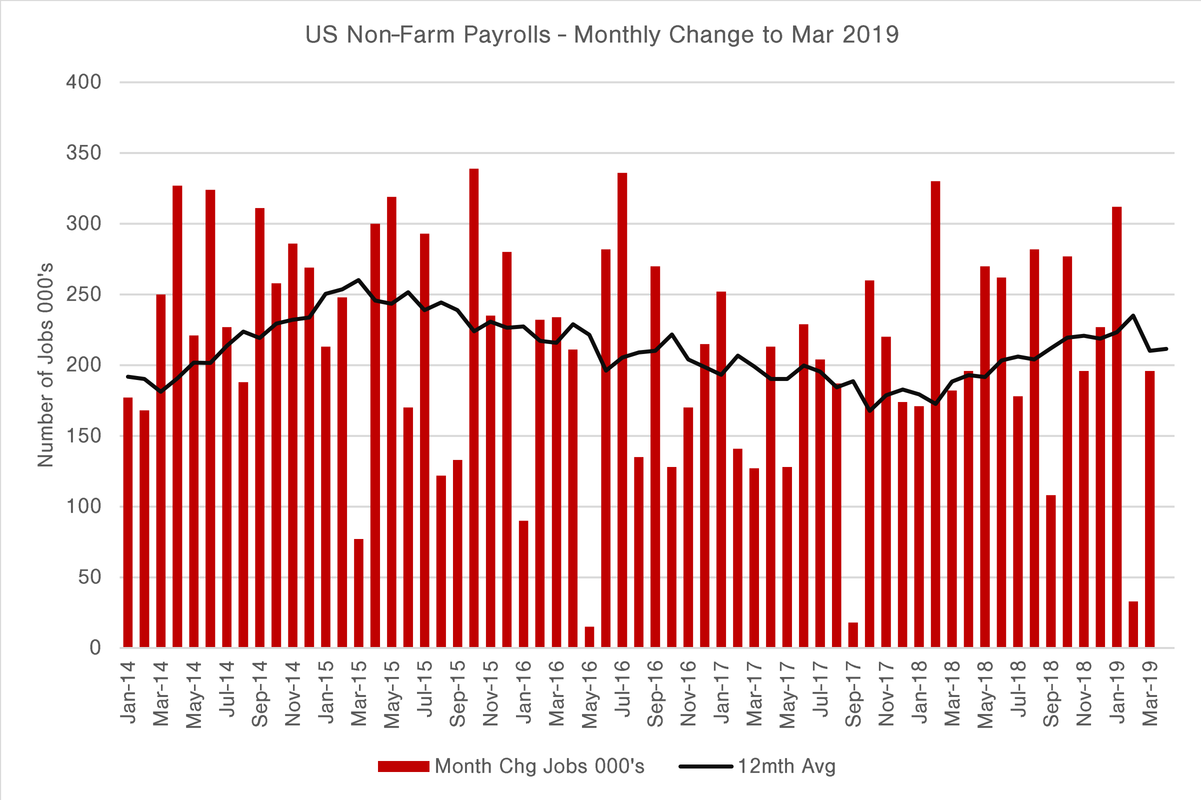
Via the establishment survey – non-farm payrolls grew at a faster pace after the much lower growth in the month prior. The 12-month average remains unchanged.

Via the household survey – Over the last year, total employed persons have continued to grow faster than what both population and participation have added to the labour force. As a result, total unemployed persons continue to decline. Of note though is that participation growth has stalled, and employment growth appears to be slowing.

Establishment Survey

Non-farm payrolls increased at a faster pace in the latest month; Mar 196k jobs versus Feb +33k. The Feb result was revised higher from the prelim result of +20k jobs.

The growth in the current month remains below the 12-month average. The 12-month average remains lower at 211k jobs after falling from 235k in Jan 2019.

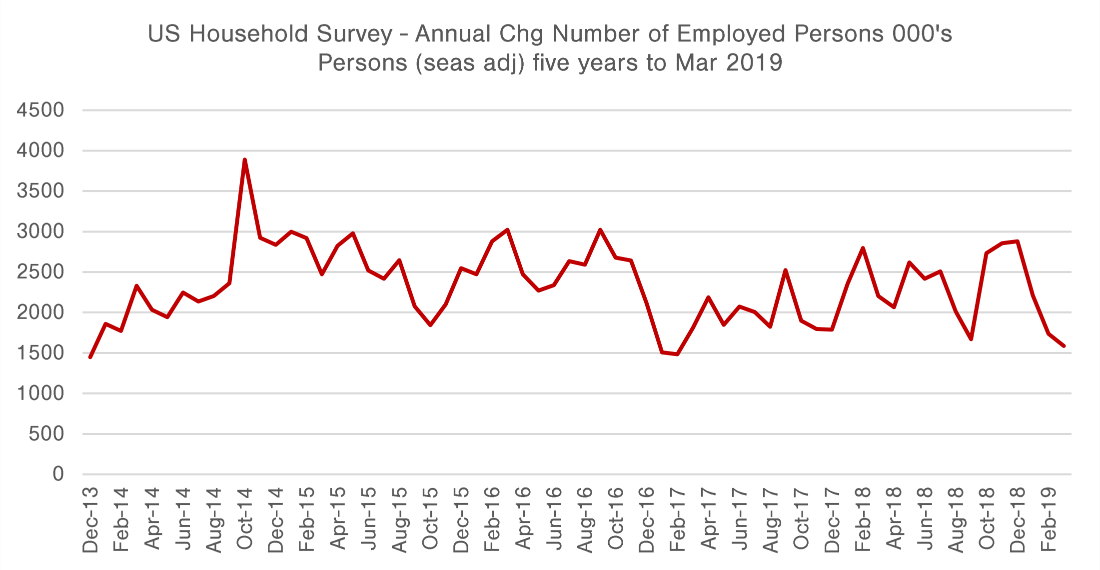


Household Survey

In the latest year, employed persons still grew at a faster pace than what both population and participation have added to the labour force. As a result, total unemployed persons have continued to decline. The slower pace of decline in total unemployed persons is due to slowing growth in total employed persons while the total labour force has grown at a faster pace although improvements in participation have stalled.

Total employed persons

In the year to Mar 2019, the growth in total employed persons slowed; Mar 1,588k persons versus Feb 1,736k persons. This annual change has been slowing over the last few months and is approaching recent lows recorded in 2013 and 2016;



In the latest month, total employed persons declined; Mar -201k persons versus Feb +255k persons.

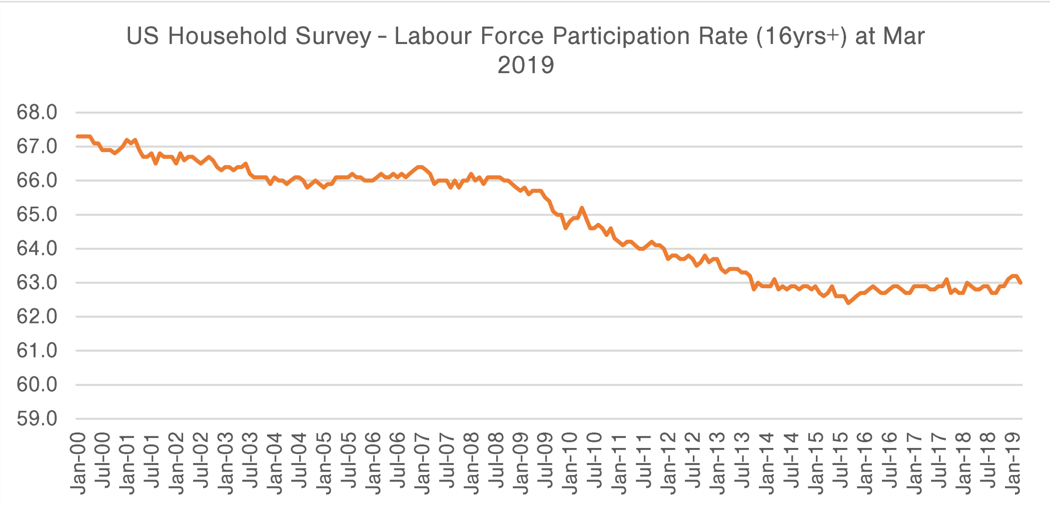
Importantly though, the annual change in employed persons remains above the growth in the total labour force.

<u>Change in the size of the Labour Force</u>

The total labour force grew at a slightly faster pace on an annual basis; Mar +1.314k persons versus Feb +1,284k persons.

Contributing to this growth was a faster pace of (the est of) what population growth adds to the labour force and slower growth from changes in participation.

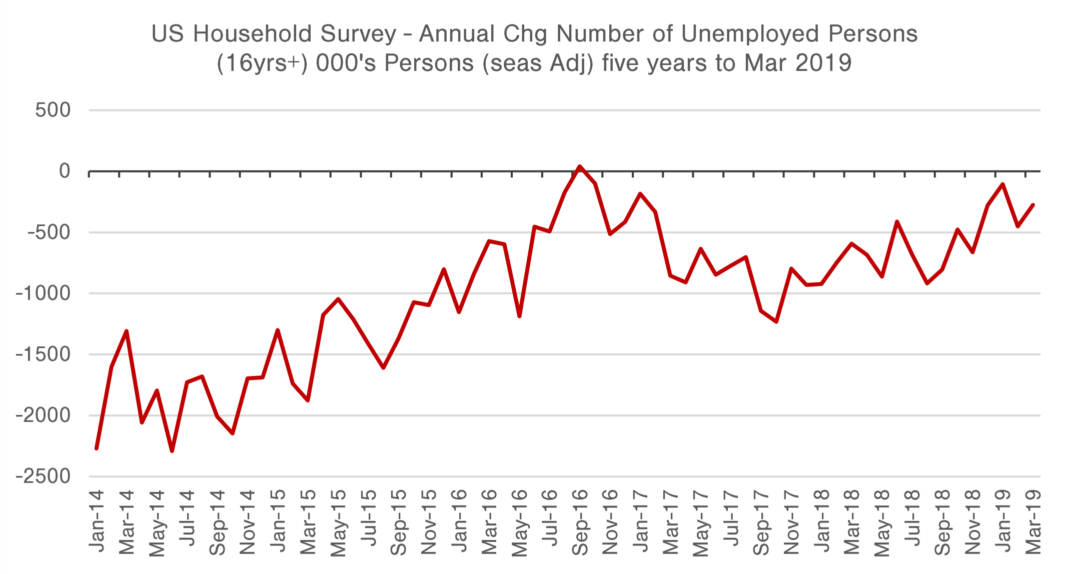
Versus a year ago, the labour force participation rate (LFPR) increased by +0.1% pt. In the latest month, that participation rate declined by -0.2% pts to 63%.



This means that on an annual basis, employment growth is still higher than that of the labour force and continuing to reduce total unemployed persons.

Total Unemployed Persons

In the latest year, total unemployed persons declined at a slower pace; Mar -275k persons versus Feb -452k persons.



This slower decline was the result of slower growth in total employed persons together with faster growth in the total labour force.

The unemployment rate in Mar was unchanged at 3.8%. But note that participation for the 16+yrs group remains close to the lows.

Summary of key labour market indicators;

Over the last year, total employed persons have continued to grow faster than what both population and participation have added to the labour force. As a result, total unemployed persons continue to decline. Of note though is that participation growth has stalled, and employment growth appears to be slowing.

Annual chg 000's people (16yrs+) - MAR 2019		
The estimated change in the Labour Force due to pop growth (1)		1,055
How many jobs available for them? (annual employment growth) (2)		1,588
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	-	533
Change labour force participation - (if positive, people entering/returning to the labour force) (4)		259
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)	-	274
Two views of annual growth in the labour force;		
Total employed persons plus total unemployed persons		1,314
Est of what population adds to the labor force plus change in participation		1,314
BLS reported change in the size of the labor force		1,314

https://www.bls.gov/news.release/empsit.nr0.htm

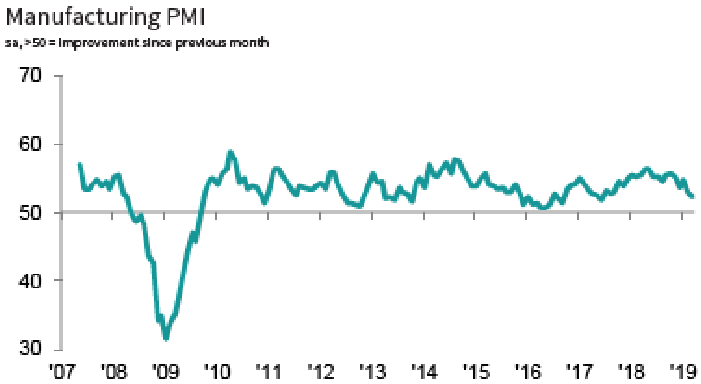
PRODUCTION AND OUTPUT

Manufacturing PMI (Mar)

The headline manufacturing PMI expanded at a slower pace in Mar. Important measures of demand continued to ease in the month with output and new orders growing only at a marginal rate.

Headline PMI

Mar 52.4 versus Feb 53



The slower growth was mostly the result of a slower increase in output. Of note was that panellists cited 'slower underlying client demand' as the driver of the marginal increase in output.

New orders expanded at a only a modest pace and new export orders grew only at a marginal rate. Tariffs and global trade tensions were cited as dampening demand.

Pre and post production inventories increased in mar. the change in order backlogs declined marginally below the 50-neutral mark.

Prices grew at a slower pace – both input costs and output prices.

Employment continued to increase at a "solid rate". Firms continued to cite difficulties in finding skilled or suitable candidates.

Confidence remained below the series trend, but increased from Feb.

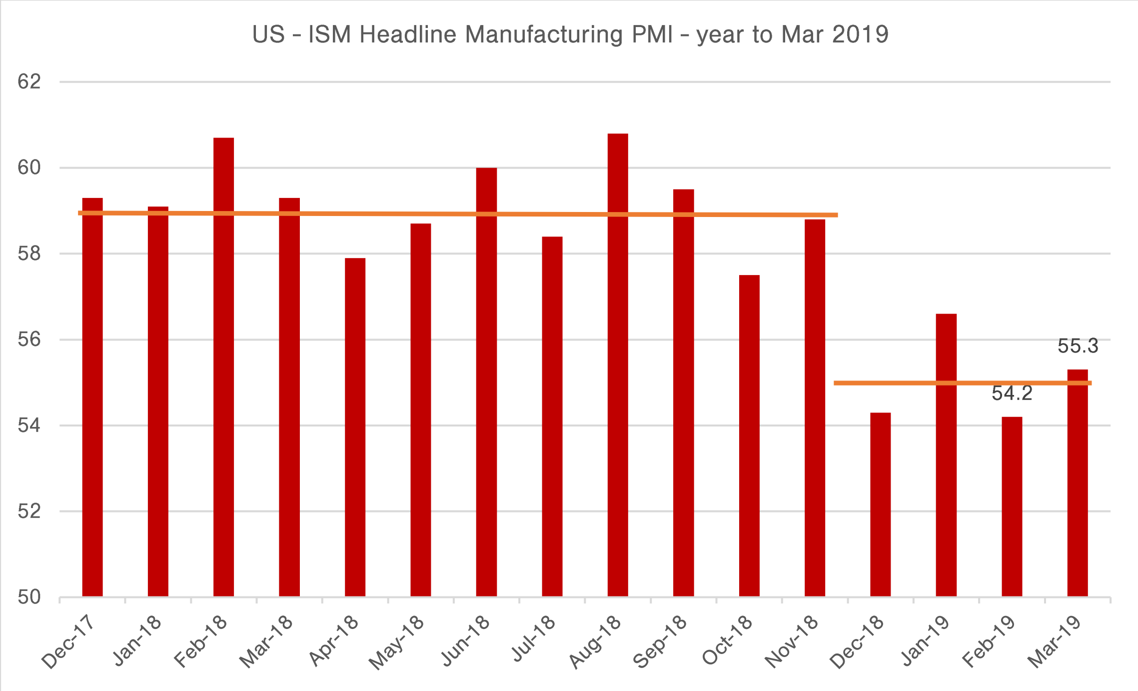
https://www.markiteconomics.com/Survey/PressRelease.mvc/e29bbf8926ec4431bcf1019bfaf5fb69

ISM Manufacturing Index (Mar)

The ISM report showed that manufacturing grew at a slightly faster pace in Mar. Key indicators of demand such as production and new orders grew at a faster pace in the month. At the same time, order backlogs grew at only a marginal rate – as production output likely reduced these backlogs.

The headline PMI remains at a lower level compared to the higher activity recorded throughout most of 2018. The average reading for Dec 17 to Nov 18 was 59. The average for Dec 18 – Mar 19 is 55.1. **We are seeing a lower level of activity/growth in manufacturing.**

<u>Headline PMI;</u> Mar 55.3 versus Feb 54.2



Production increased at a slightly faster pace – the underlying change was that more firms recorded ‘higher’ levels of production (shifted from ‘the same’).

The backlog of orders grew at a slower pace slowing to an index reading only just above the neutral rate – 50.4. A lower proportion of firms recorded ‘higher’ backlogs.

New orders also increased at a faster pace with a large increase in the proportion of firms recording ‘higher’ levels of new orders (shifting from ‘the same level’ of new orders).

New export orders grew at a slower pace, growing only moderately.

Employment continued to grow at a faster pace, reaching an index reading of 57.5.

Inventories grew at a slower pace, expanding only moderately, despite the increase in production.

Prices shifted back into expansion territory indicating that prices increased compared to the contractions/falls recorded in Jan & Feb.

https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?SSO=1

Business Inventories (Jan)

An important release highlighting the increase in the inventory to sales ratio across distribution channels.

Sales across the distributive trades increased in the latest month after declining in the month prior. But inventories grew faster across all channels – especially in the Merchant Wholesaler channel. At a total business level, the inventory to sales ratio has continued to increase over the last five months across all the channels – manufacturers, retailers and (especially) merchant wholesalers.

So, while we are seeing increases in manufacturer shipments, there is an increasing level of inventory (relative to sales) in the supply chain.

Definitions (Via the Census Bureau);

<u>Manufacturers sales</u> refer to the value of shipments by manufacturers. The shipments data from individual manufacturers are adjusted prior to tabulation for the number of trading days as well as for any variations in the length of the reporting period.

<u>Merchant wholesalers</u>; The 2012 North American Industry Classification System (NAICS) defines merchant wholesalers as including manufacturers' sales branches and offices. However**, the estimates included in this release exclude manufacturers' sales branches and offices**. Note that this is not a change in coverage from prior releases and is consistent with the description used in the Monthly Wholesale Trade Survey data products.

<u>Sales & Inventories Growth</u>

Total Business;

Monthly change - Sales; Jan +0.3% or +$4.1bn versus Inventories; Jan +0.8% or +$16.9bn

On an annual basis, growth in inventories exceeds that of sales (NSA data): Sales +3% (+38.8bn) versus Inventories +5.3% (+$101.8bn!)

<u>Across the channels -</u>

Manufacturers;

Monthly change - Sales; Jan -0.4% or -$1.8bn versus Inventories; Jan +0.5% or +$3.6bn

On an annual basis growth in inventories also exceeds that of sales (NSA); Sales +3% (+$13bn) versus inventory growth of +4% (+$24bn).

Retailers;

Sales; Jan +0.8% or +$3.6bn

Inventories; Jan +0.8% or +$5.4bn

On an annual basis, growth in inventories in the retail sector also currently exceeds that of sales (NSA); Sales +3% (+$12.2bn) versus inventory growth of +5% (+$29bn).

Merchant Wholesalers;

Sales; Jan +0.5% or +$2.3bn

Inventories; Jan +0.5% or +$7.8bn

This is the key driver of inventory gains; Sales +3% (+$13.6bn) versus inventory growth of 8% or +$48bn.

Sales to Inventory Ratio

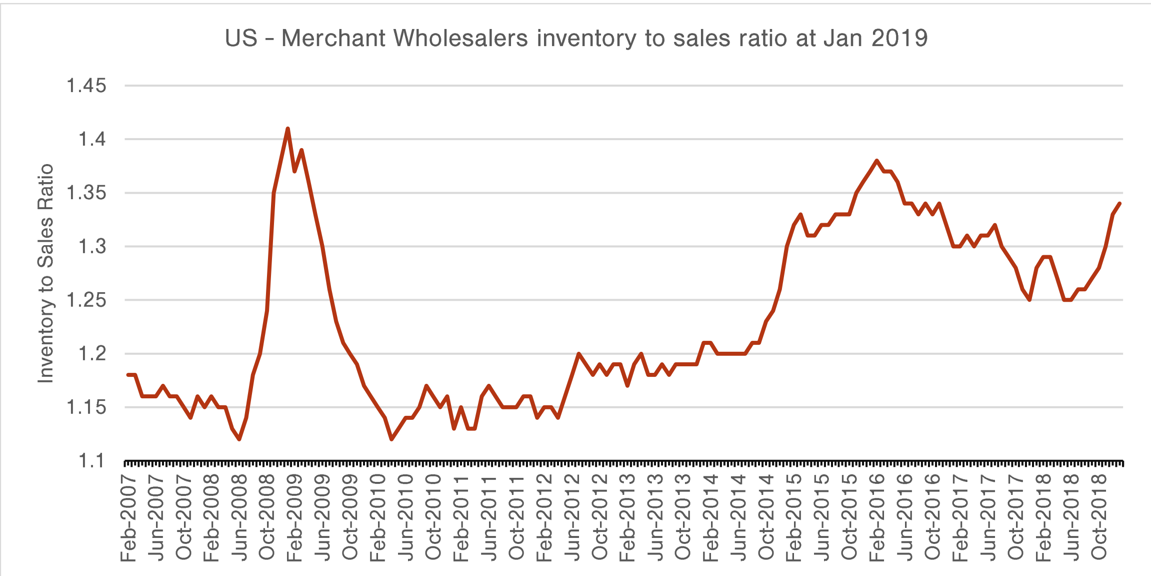
Bringing both sales and inventories together highlights that the inventory ratio has been increasing over the last few months. It is still lower than recent peaks but obviously increasing. Either production/shipment activity needs to slow to bring down inventories or promotional activity needs to lift sales. Various measures of activity of the US private sector already suggest that production activity has been slowing leading up to late 2018.

Total Business; Sales to inventory ratio

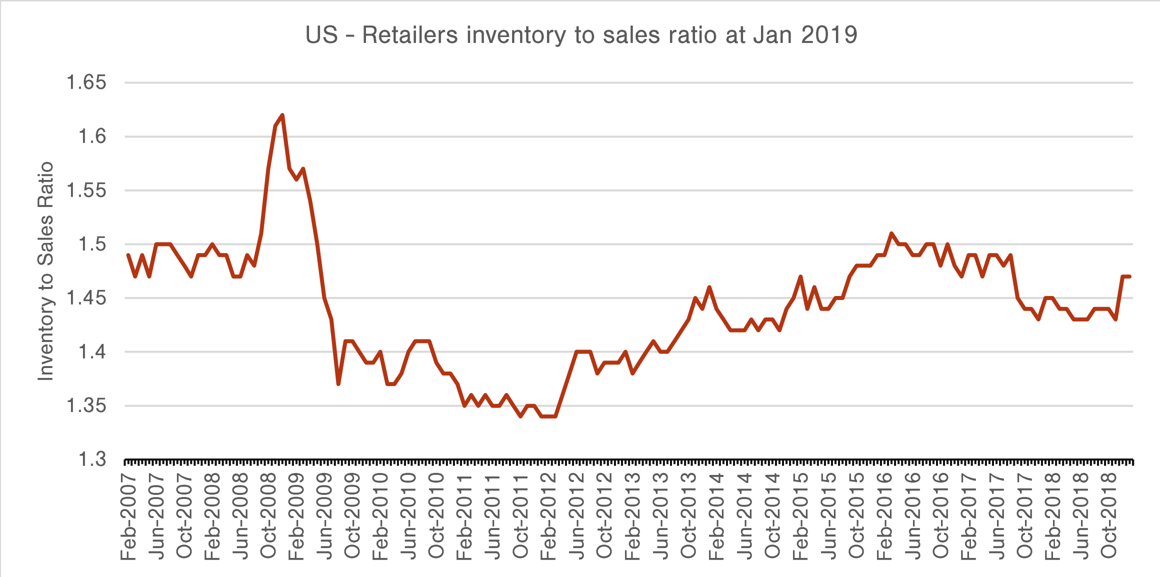
Jan 1.39 versus Jan 2018 1.36

The increase over the last five months has been mostly the result of increases within the merchant wholesaler channel;

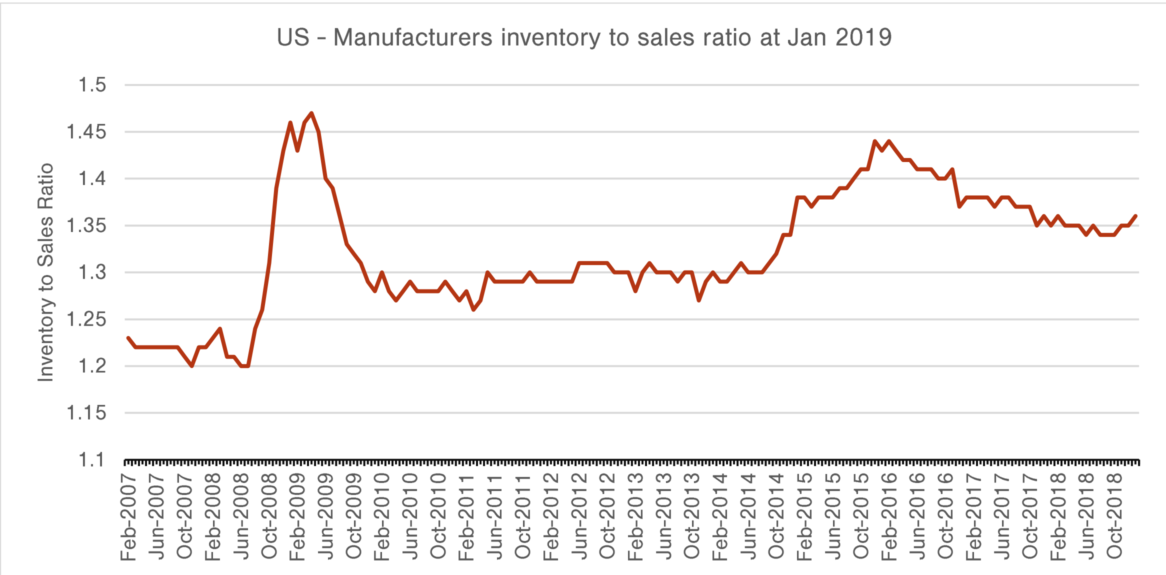
Jan 1.34 versus 1.28 in Jan 2018



Retailer inventory to sales ratio has spike more recently in Nov 2018 – this is consistent with the slowing retail sales over that time;



The increase in the Manufacturer inventory to sales ratio is less pronounced;



https://www.census.gov/mtis/www/data/pdf/mtis_current.pdf

Durable Goods Orders (Advance Factory Orders) (Feb)

New orders for Durable Goods fell in the latest month due to a fall in orders for non-defense aircraft. This reversed the stronger two prior months for non-defense aircraft orders.

Shipments increased after falling in the month prior. Shipments were stronger over most categories which helped to offset declines in transport and defense shipments.

New orders;

Feb -1.6% (-$4.1bn) versus Jan +0.1%

The decline was led by non-defense aircraft and parts which declined by -$4.6bn versus the month prior and which had increased over the two months prior. This also forms part of the decline in Capital Goods Orders.

Shipments;

Feb +0.2% (+$0.6bn) versus Jan -0.4%

Shipments excluding transportation was higher in Jan +0.5% (+$0.8bn) and shipments excluding defense was much higher in Jan +0.6% (+$1.3bn) versus the month prior.

Some of the previous orders for non-defense aircraft and parts have yet to show in the shipments data.

Inventories;

Inventories increased at a slower pace; Feb +0.3% (+$1.3bn) versus Jan +0.5%. excluding transport, inventories were mostly unchanged.

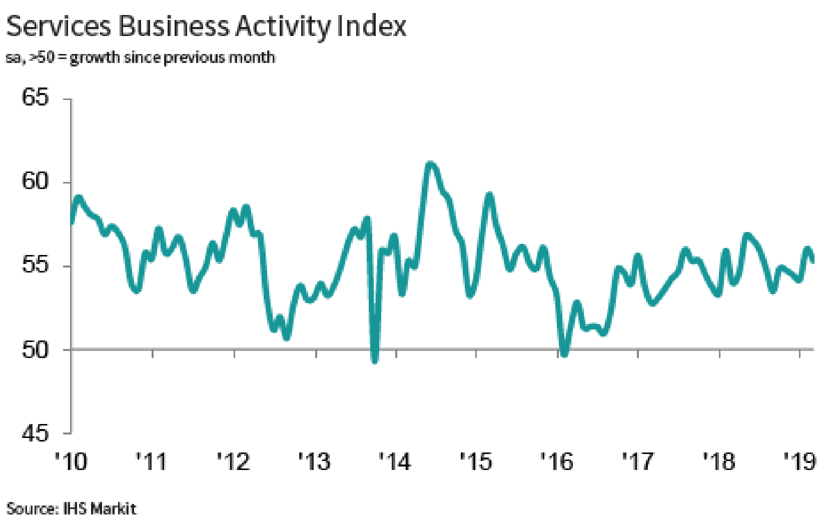
That said, the increase in transport inventories, whilst expected given the orders for non-defense aircraft, was recorded across several transport sub-groups including motor vehicles and parts (+1.4% versus the month prior). Inventories for non-defense aircraft and parts grew again +1.3% versus +0.8% in the month prior – likely due to work in progress.

https://www.census.gov/manufacturing/m3/index.html

Services PMI (Mar)

The US services PMI grew at a slightly slower pace in Mar. While output and new orders continued to grow, firms became less optimistic about the next 12-months – citing 'global trade tensions', economic growth and 'more intense competition'.

Headline PMI; Mar 55.3 versus Feb 56



Business activity increased at a faster pace – the fastest since Jul 2018. Firms cited 'robust client demand'.

Growth in new business was somewhat slower in Mar. New export orders increased for the second month.

Business confidence for the next 12-months was lower. Optimism fell to the lowest level since late 2017 and was muted overall.

Growth in input prices continued to slow – costs increased at a moderate rate. Output prices increased at a rate consistent with the series trend.

Employment growth slowed to the lowest level since May 2017 – in part linked to lower business confidence.

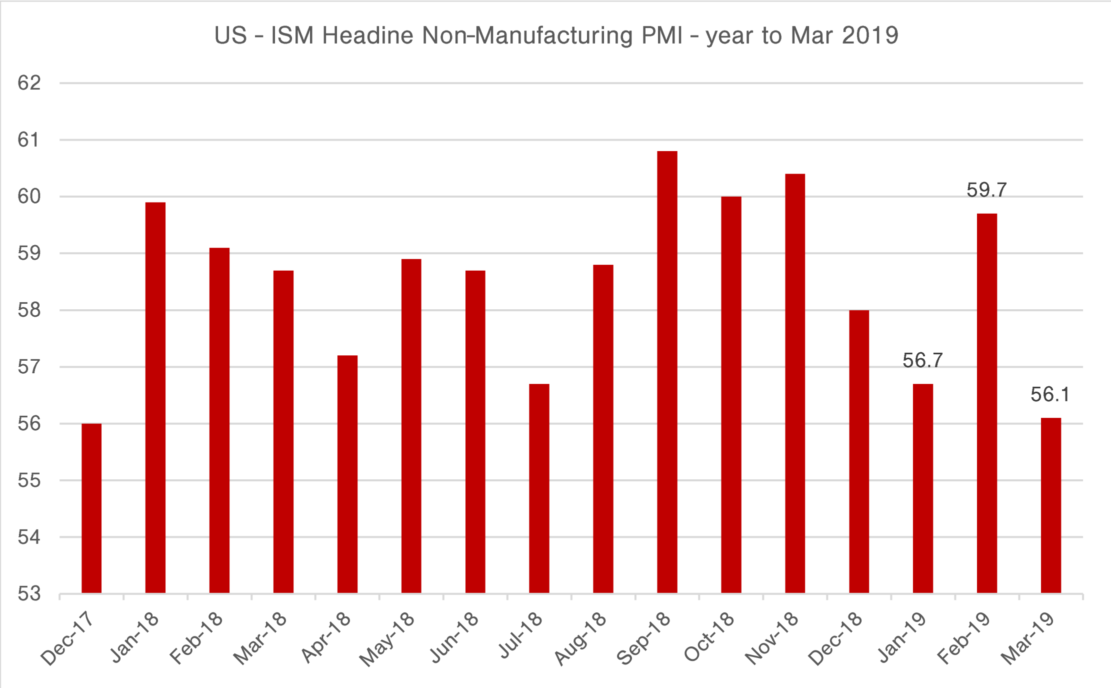
https://www.markiteconomics.com/Survey/PressRelease.mvc/9acab8b430ff4c1c980bc0d6c54d8a53

ISM Non-Manufacturing Index (Mar)

The headline non-manufacturing index grew at a slower pace in Mar. The headline index fell by more than 2 std deviations versus the month prior (based on the last 12mths) reaching a new 12-month low. Contributing to the result was slower growth across key areas of production and new orders.

Headline non-manufacturing PMI: Mar 56.1 versus Feb 59.7 (-3.6pts)

The fall in the headline index is -2.29 SD's based on the last 12-months.



Business activity and production grew at a slower pace, falling by 7.3 pts versus the month prior. There were less firms reporting higher levels of business activity and more firms reporting 'lower' levels of activity.

New orders growth also slowed, with the index falling 6.2pts. Again, less firms reported 'higher' levels of new orders and more firms reported 'lower' levels of new orders.

Nonetheless, employment grew at a slightly faster pace (+0.7 pts). More firms reported 'higher' levels of employment rather than the 'same' level of employment.

Prices paid for materials and services increased at a faster pace in Mar.

https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?SSO=1

US Fed Speeches;

New York Federal Reserve Bank President Williams - welcoming remarks at the Community Bankers Conference in New York

Atlanta Fed President Bostic - Lecture and discussion on "Disruption and Opportunity: Shaping Policy in a Digital World" at the Andrew Young School of Policy Studies and the Fiscal Research Center at Georgia State University in Atlanta, Georgia

Minneapolis Fed President Kashkari - participate in a town hall at North Dakota State University in Fargo, North Dakota

Return to top

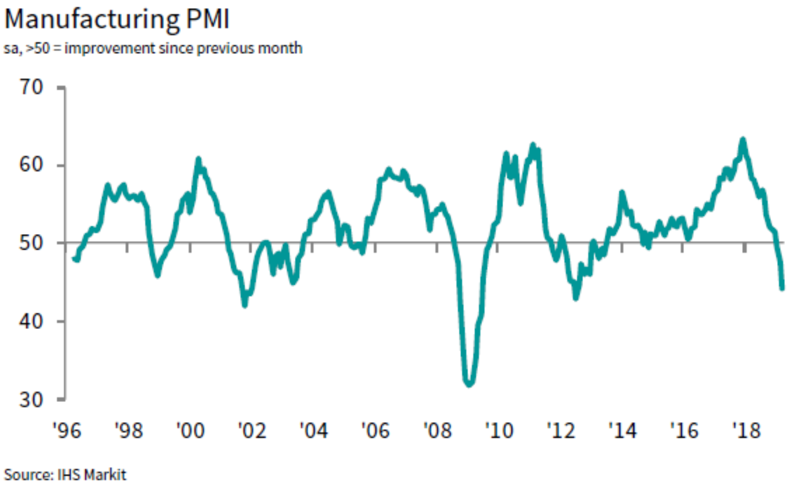
Europe

Germany Manufacturing PMI (Mar)

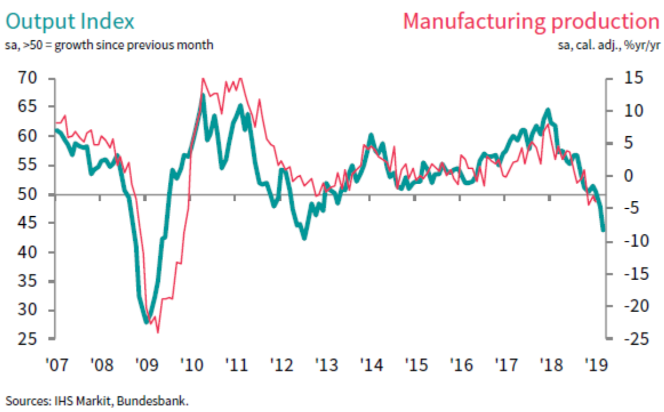
The headline index of manufacturing activity in Germany continued to fall further into contraction in the latest month. This was led by further falls in output and new orders. Firms cited the uncertainty around Brexit, trade tensions, a weak auto sector and 'generally softer global demand' as reasons for the deterioration. This rounds out what looks like a very weak Q1 for production in Germany.

Headline PMI; Mar 44.1 versus Feb 47.6 (the Mar figure was revised lower from the prelim 44.7).

The fall in the headline PMI is now approaching the levels of the European sovereign debt crisis of 2011/12.



The decline in output accelerated lower in Mar. Production fell for the first time in six years in Feb and fell even lower in Mar. Declines were recorded across all three broad industrial categories. Intermediate goods and capital goods output fell the most.



Backlogs fell for the seventh month – and at the fastest rate since 2009.

The decline in new orders also decelerated sharply in mar. Export sales also declined at faster pace – the fastest pace since Apr 2009.

As a result, employment dropped for the first time in three years. The decline was marginal.

Inflation pressure continued to ease. Input costs increased only marginally, and output charges increased at a slower rate.

https://www.markiteconomics.com/Survey/PressRelease.mvc/6fe0fb6d2c07407cbd35e8632cf1e0da

Germany Factory Orders (Feb)

Factory orders for manufacturing fell at a faster pace in Feb. Generally, factory orders from the domestic market are performing better than those received from foreign markets.

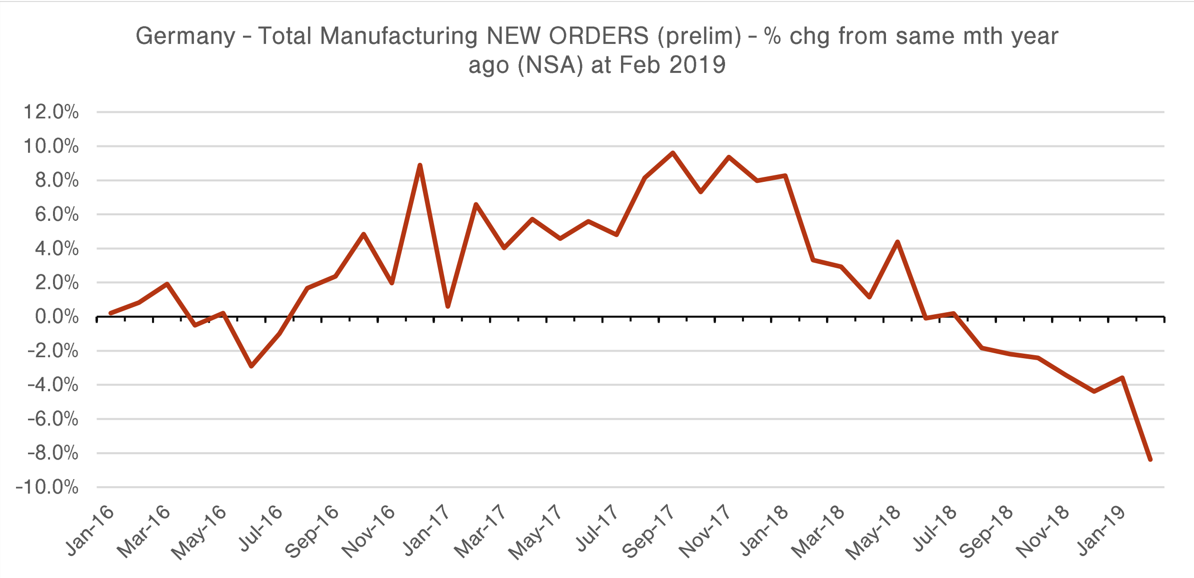
Durable Goods overall is the only industrial group where factory orders grew in the latest month and were ahead of last year. Large declines in factory orders for Capital Goods, Consumer Goods and Non-Durables are leading the larger declines in the month and versus a year ago.

Total Manufacturing

In the latest month; Feb -4.2% versus Jan -2.1% (Jan revised slightly higher/positive from -2.6% originally reported).

Across all key regions, factory orders declined in the latest month. The domestic market recorded a lower decline of -1.6%. Factory order for foreign markets declined by 6%, led by an 8% decline in non-Euro area countries.

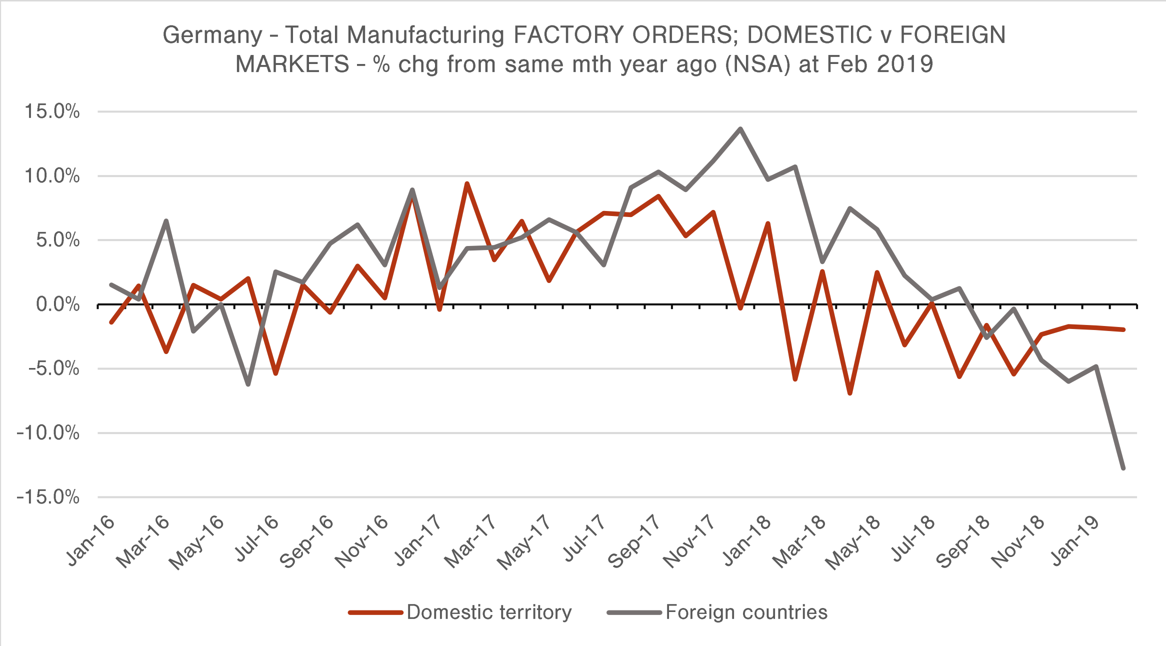
On an annual basis (same mth versus a year ago), the decline in factory orders accelerated to -8%;



This brings order activity back to the level recorded in Jan 2017. On an annual basis, the decline manufacturing factory orders has been led predominantly by foreign markets;

Domestic factory orders; -2% versus a year ago

Foreign market factory orders; -12.8% versus a year ago. Euro-area and non-Euro-area markets are down equally.

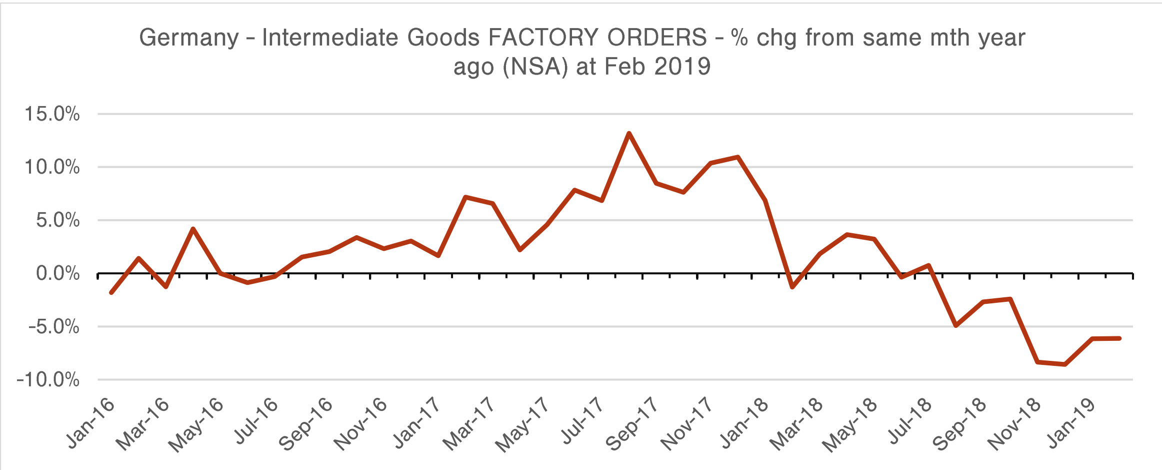


Major Industrial Categories

Intermediate Goods;

Factory orders for Intermediate Goods declined by -0.9% in Feb versus -0.9% in Jan. This decline was led by foreign markets as domestic factory orders increased by +0.6% in Feb.

The decline intermediate goods on an annual basis was unchanged at -6% in Feb. Versus a year ago, similar levels of declines in factory orders were recorded across all markets.



Capital Goods;

Factory orders for Capital Goods declined at an accelerated pace in the latest month; Feb -6% versus Jan -3.1%. Declines from foreign markets (-7.4%) led the overall decline, but domestic factory orders for capital goods also declined by -3.6% in Feb.

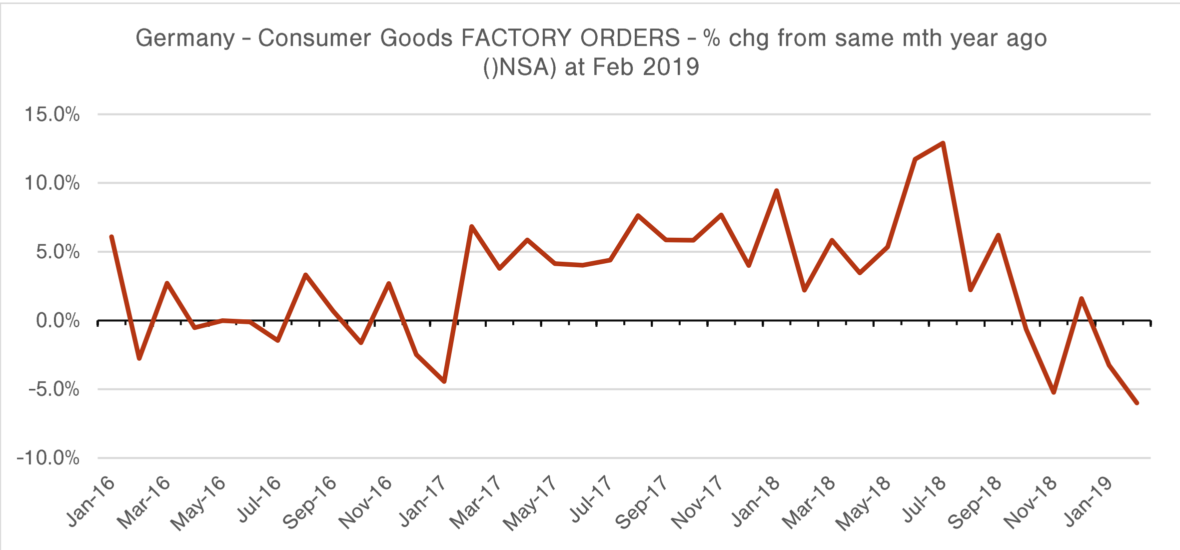
On an annual basis, the decline in factory orders for Capital Goods accelerated from -1.9% in Jan to -10% in Feb;

This accelerated leg down versus a year ago has been led by foreign markets. Versus a year ago, factory orders for Capital Goods for the domestic market increased by +0.4%. For foreign markets, factory orders are down -15.6%.

Consumer Goods:

In the latest month, factory orders for consumer goods also declined at a faster pace; Feb -3.5% versus Jan -1.2%. This was led by foreign markets -6.9% in Feb versus domestic orders +1.3%.

On a year ago basis, the decline in factory orders for consumer goods also accelerated; Feb -6% versus a year ago. In Jan, that decline was -3.2%. Foreign markets accounted for this decline; Foreign Countries -11.2% (which was Euro Area countries) versus domestic markets growth of +1.8%;



Durable Goods;

This was the once bright spot in the report. In the latest month, durable goods factory orders increased; Feb +0.3% versus Jan -2%. The Feb result was led by stronger growth in the domestic market +3% while factory orders for non-Euro-area markets declined by -4.5%.

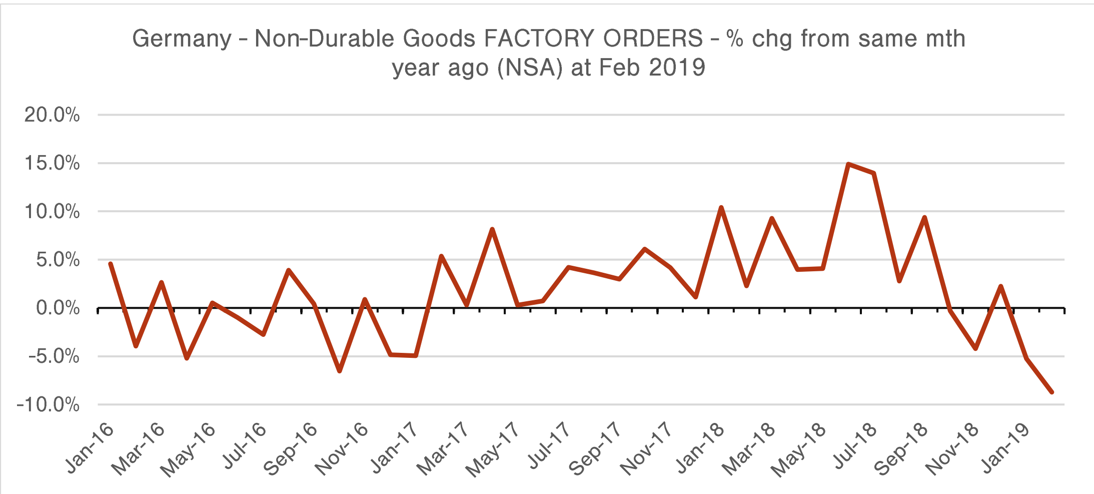
On an annual basis, growth in Durable Goods Factory Orders continued to grow at a similar pace; Feb +2.1%

Versus a year ago, factory orders for Durable Goods grew by +2.6%, Euro- area markets by 5% and non-Euro-area countries continued to decline -1.4%.

Non-Durable Goods;

In the latest month, the decline in factory orders for non-durable goods accelerated; Feb -4.9% versus Jan -0.9%. Factory orders for the domestic market increased in Feb +0.7% but there was an 8.9% decline from foreign markets – both Euro-area and non-Euro-area markets.

On a year ago basis, factory orders of non-durable goods declined at an accelerated rate; Feb -8.7%. Again, factory orders for the domestic market remain ahead of last year by +1.5%, but it was foreign markets that have declined the most; Euro-area -26.5% and non-Euro-are -3% (after being +6.6% ahead of last year in the month prior.



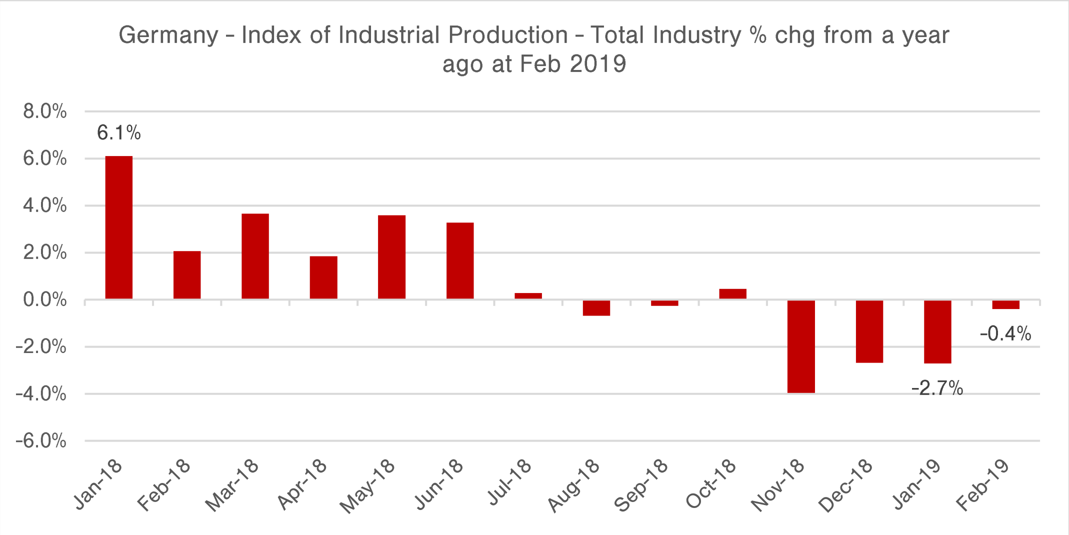
https://www.destatis.de/EN/Press/2019/04/PE19_132_421.html

Germany Industrial Production (Feb)

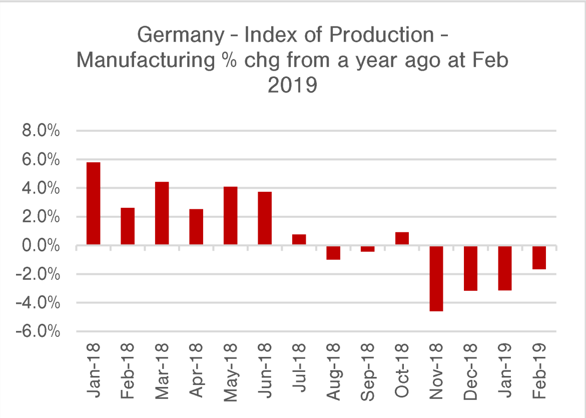
Production in total industry increased at a faster pace in Feb. Within total industry, manufacturing production continued to decline. Declines in the month were also recorded in the production of intermediate goods, durable goods, non-durable goods and consumer goods. Production of capital goods increased along with a large monthly increase in the construction industry group.

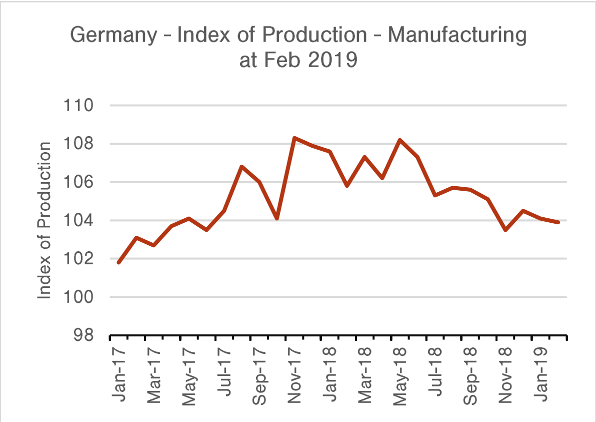
Total Industry; Feb +0.7% versus Jan +0%

On an annual basis, total production is -0.4% below the same time last year;



Overall manufacturing production; Feb -0.2% versus Jan -0.4%. Production in manufacturing is -1.7% below the same time a year ago. While the rate of decline is slowing, the index of manufacturing production highlights that activity remains flat and below the recent peak of May 2018;





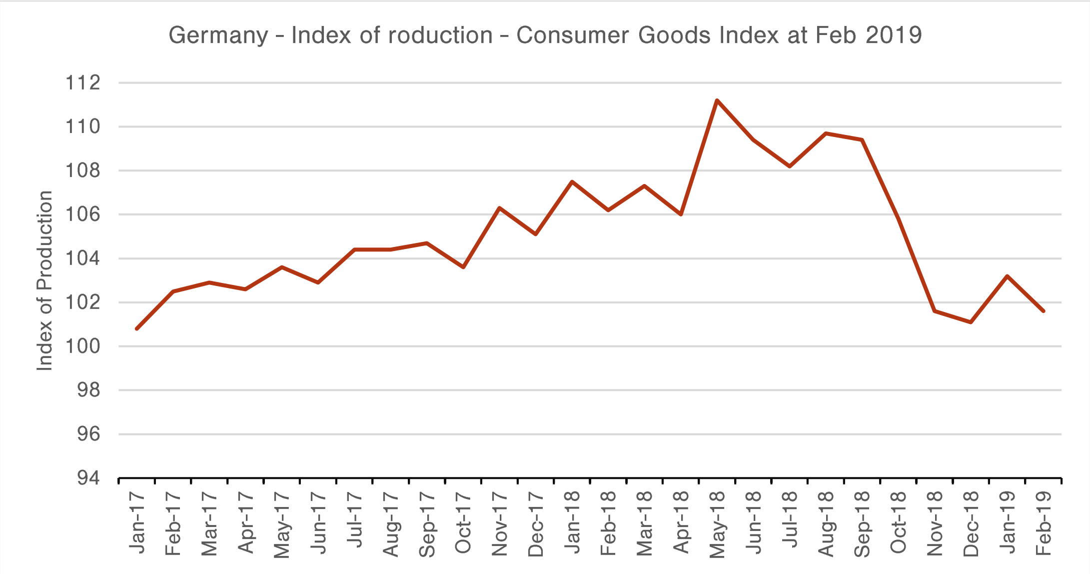
Intermediate Goods; production declined at a faster pace; Feb -0.6% versus Jan -0.4%. Versus the same month a year ago, production declined by 2.5%.

Capital Goods; production growth increased in the latest month; Feb +0.6% versus -1.4% in Jan. Production of capital goods remains -0.2% below the same month last year.

Durable Goods production declined; Feb -1.1% versus Jan +3.1%. Production of durable goods is almost on par with the same month a year ago (-0.1%).

Non-Durable Goods production also declined; Feb -1.6% versus Jan +1.8%. Production of non-durable goods versus the same month a year ago declined further to -5.2%.

Consumer Goods production also declined in the month; Feb -1.6% versus Jan +2.1%. Production of consumer goods remains 4.3% below the same time last year. The following chart of the index of production for consumer goods highlights that activity remains well below the peak reached in early 2018;

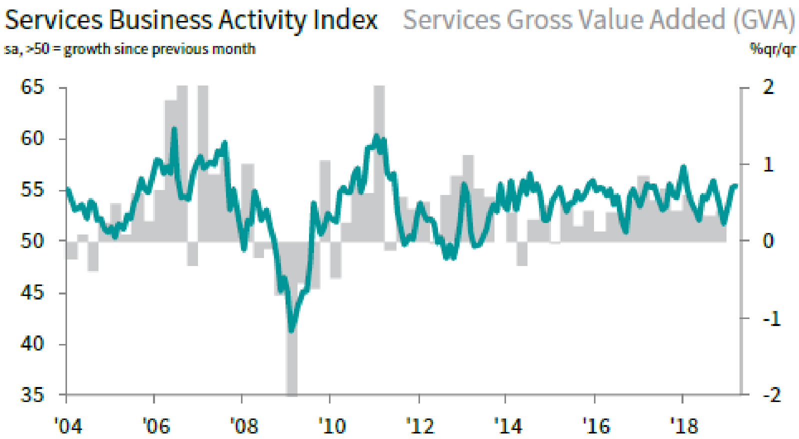


https://www.destatis.de/EN/Press/2019/04/PE19_135_421.html

Germany Services PMI (Mar)

Despite the contraction in manufacturing activity, the services PMI remained elevated, growing at a slightly faster pace in Mar than in Feb.

Headline services PMI; Mar 55.4 versus Fed 55.3 (the Mar final figure was revised higher from the prelim result of 54.9)



Note: Services GVA data include retail, which is not included in the PMI.
Sources: IHS Markit, Federal Statistical Office

Growth was strong across Post & Telecommunications, Renting & Business Activities and Financial intermediation, which offset slightly lower activity in Hotels & Restaurants, Transport & Storage and Other Services.

New business continued to rebound, accelerating for the second month in a row. New business from overseas fell back into contraction in Mar.

Backlogs of work increased for the second month. This partly resulted in firms increasing employment (fastest rate since Oct 2018). Employment in transport and storage did not rise.

Cost pressures moderated somewhat. Firms increased prices charged at a faster rate.

Confidence in the year ahead eased in Mar but was still elevated compared to the last six months.

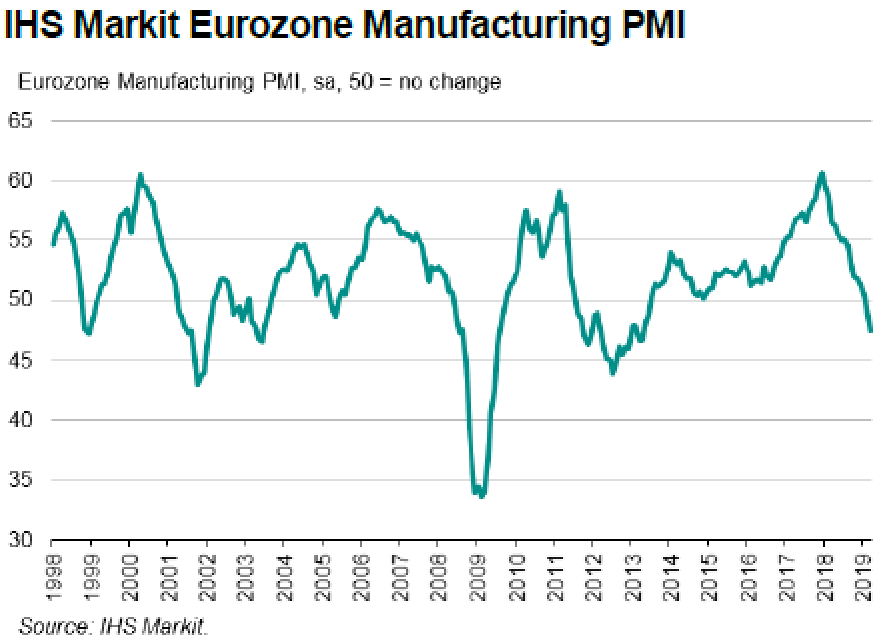
https://www.markiteconomics.com/Survey/PressRelease.mvc/39fe540909004e65b2fe056a6ea2f176

Eurozone Manufacturing PMI (Mar)

Manufacturing activity across the Eurozone continued to contract in Mar – capping off a very weak Q1. This was led by manufacturing activity contracting in several of the major industrial economies such as Germany, Italy and France.

This is the second month of contraction at the Eurozone level – but note that index peaked back in Mar 2017.

Headline Eurozone Manufacturing PMI; Mar 47.5 versus Feb 49.3



Output fell at a 'marked and accelerated rate'. Operating conditions deteriorated across industrial categories such as investment and intermediate goods. Consumer goods recorded modest growth. Production activity was mostly focused on reducing order backlogs – as backlogs fell by the largest rate since Nov 2012.

New orders contracted in Mar by the greatest degree since 2012. Export orders also declined, now down by the largest rate since Aug 2012.

Inventories increased marginally in Mar for the sixth month in a row. The purchase of inputs showed a large reduction as firms used up existing inventory of inputs instead.

Employment grew in Mar versus Feb, but the increase was marginal. Net job losses across manufacturing were recorded in Germany and Italy.

Confidence continues to wane – with expectations for output in 12-months time falling to the lowest level since Dec 2012.

https://www.markiteconomics.com/Survey/PressRelease.mvc/feec34453d624bf6888a8841055e6954

Eurozone Services PMI (Mar)

Across the Eurozone, services activity grew at a faster pace. This was led by faster growth in services in Germany, Spain, Ireland and Italy. France returned to slight contraction.

Headline services Activity Index; Mar 53.3 versus Feb 52.8

New business activity increased at a stronger pace – the fastest in over 4-months.

Firms increased employment at a faster pace especially in Germany, Ireland and Spain.

Input price growth remains subdued while output charges increased at the fastest rate since Jan 2018.

"The service sector has managed to sustain a relatively resilient rate of growth but has also lost momentum in recent months. This should come as no surprise as history tells us that robust service sector growth usually depends on a healthy manufacturing economy."

https://www.markiteconomics.com/Survey/PressRelease.mvc/b738d4f7246a47388e3f837285b8cbba

Eurozone Retail Sales (Feb)

Euro Area and EU28 retail sales increased by +0.4% in real terms in Feb. While this is lower than in the month prior the annual growth in retail sales grew at a faster pace.

Euro Area

Monthly change; Feb +0.4% versus Jan +0.9%

Although growth was slower, sales still increased across most categories;

Food, drink & tobacco – grew at the same, somewhat muted pace; Feb +0.1%

Non-Food Products grew at a slower pace; Feb +0.9% versus Jan +1.6%

Auto Fuel in specialized stores; Feb -0.7% versus Jan +1.5%

In the Euro-area, annual growth in retail sales grew at a faster pace; Feb +2.8% versus Jan +2.2% (versus the same month a year ago)

EU 28

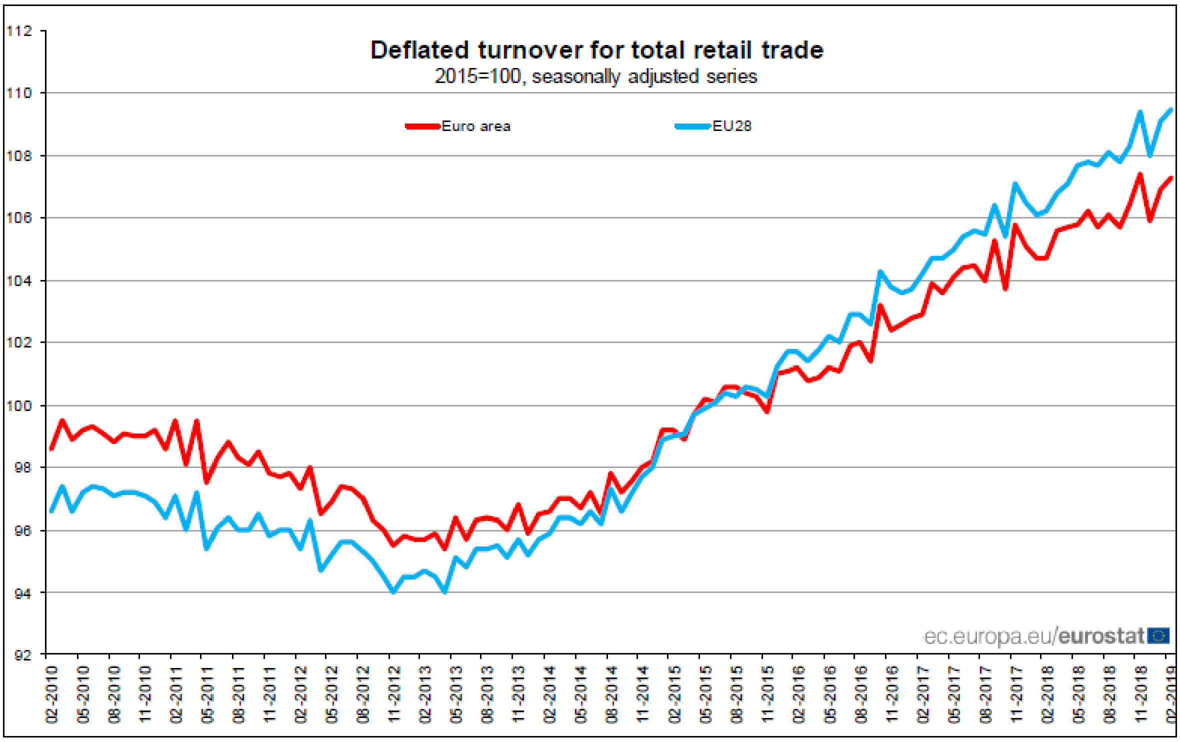
Monthly change; Feb +0.4% versus Jan +1%

Food drink and tobacco declined in the latest month; Feb -0.1% versus Jan +0.4%

Auto fuel also declined; Feb -0.2% versus Jan +1.1%

Non-Food categories grew at a slower pace; Feb +1% versus Jan +1.5%

On an annual basis, sales growth accelerated in Feb to +3.3% versus Jan +2.6%.



https://ec.europa.eu/eurostat/documents/2995521/9704768/4-03042019-AP-EN.pdf/0f3caa2d-f84c-4e9f-bbdf-c53219050d84

Return to top

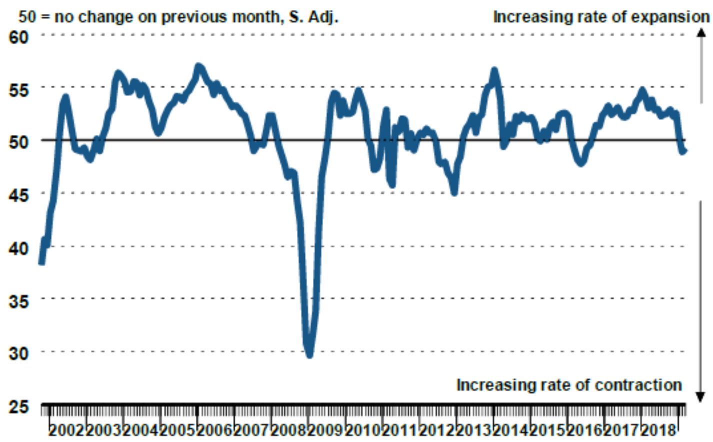
Japan

Manufacturing PMI (Mar)

Manufacturing activity continued to slow in Mar, although to slightly lesser degree than the month prior. Output continued to contract for the third month. New orders also continued to fall indicating further weakness in production. Firms cited ‘increasingly difficult economic conditions”.

Headline PMI; Mar 49.2 versus Feb 48.9

Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

Production remained in contraction for the third month.

New orders from both domestic and international clients continued to fall. Firms cited increasingly difficult economic conditions along with weaker foreign sales to Chinese and Taiwanese clients.

Employment growth continued to ease as output and new orders continued to fall.

Order backlogs continued to fall, and firms reduced inventory of inputs and finished goods.

Optimism remained subdued but did increase slightly in Mar. Firms cited “global trade fears, the impact of the incoming sales tax hike and weaker growth in China were cited as factors weighing down sentiment”.

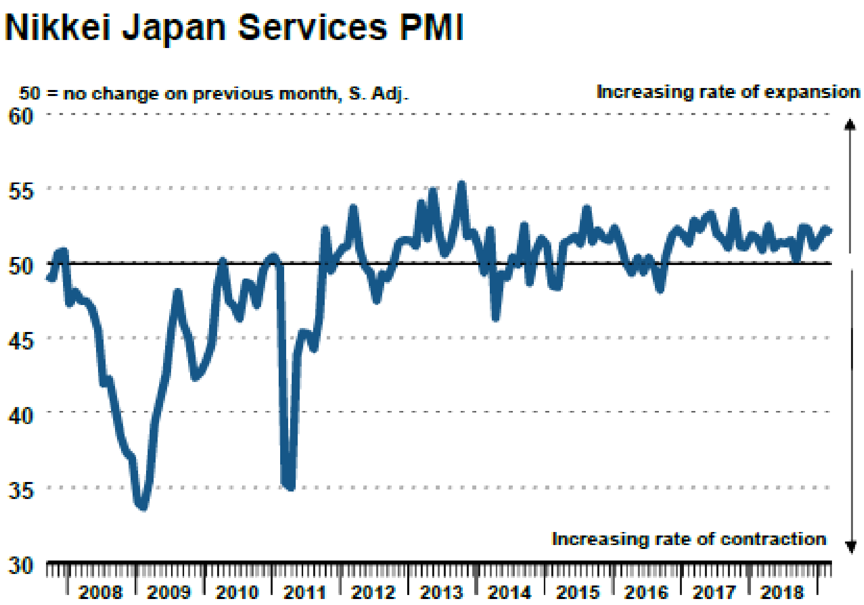
Input price growth continued to ease while output charges increased at a faster rate.

https://www.markiteconomics.com/Survey/PressRelease.mvc/18dfc259790d4665b423e997f07c3175

Services PMI (Mar)

Services activity in Japan continued to grow in Mar, albeit at a slightly slower pace than the month prior. Activity increased as new domestic orders continued to grow and firms reduced work backlogs. New export orders remained subdued. Firms were cautious about the future especially regarding the planned sales tax increase later in the year.

Headline Services Business Activity PMI; Mar 52 versus Feb 52.3



Sources: Nikkei, IHS Markit

New orders grew at a faster pace – the increase one of the 'sharpest' seen throughout the survey history'. Growth was mainly focused on the domestic market at new export orders for service firms remained 'subdued'.

Employment expanded at a faster rate for the second month. Firms continued to reduce order backlogs with backlogs falling marginally in Mar.

Sentiment fall to an 18-month low despite current conditions. Firms cited the consumption tax as likely to have a negative impact on business.

Input costs increased at a faster rate in the latest month and output charges also increased reaching an eight-month high.

https://www.markiteconomics.com/Survey/PressRelease.mvc/d38c0009ceea42819aa038858338ea72

Return to top

United Kingdom

Brexit

To break the impasse within her own party, PM May commenced talks with the UK Labour party during the week.

> "May has slowly reduced the margin of loss with each successive vote, but there is simply not enough support -- or time left on the clock -- to keep pressing the same deal."

The objective is to negotiate a compromise with Labour that would result in the UK Parliament passing the withdrawal agreement. These talks are currently on-going.

> "Despite the backlash, the Prime Minister is holding firm. On Saturday night, she issued a statement insisting she had no choice but to compromise with Labour, because otherwise Brexit would "slip through our fingers" and never happen at all."

IF a deal can be negotiated with the Labour Party, it must be agreed to by the EU at the emergency Brexit summit this coming week on 10 Apr.

https://edition.cnn.com/2019/04/07/uk/theresa-may-brexit-gamble-gbr-intl/index.html

PM May has also requested a further delay to Brexit – with an extension to 30 Jun. EC President Tusk has proposed a 12-month 'flexible extension' which would enable the UK to exit the EU sooner than 12-months if a deal is ratified the UK Parliament. This proposed extension still needs to be approved by the EC on 10 Apr.

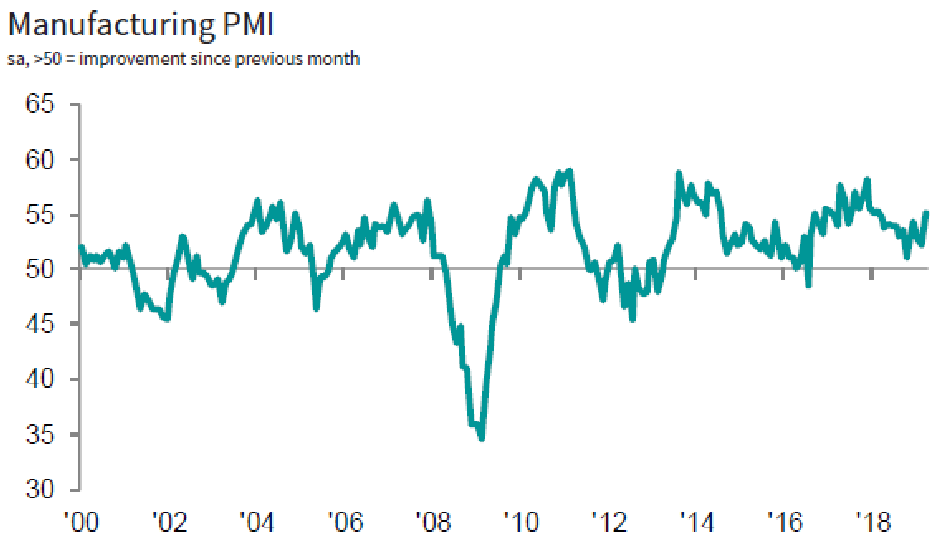
https://www.bbc.com/news/uk-politics-47821646

https://twitter.com/tictoc/status/1114074600323911681

Manufacturing PMI (Mar)

Although manufacturing isn't the bulk of the UK economy, the Manufacturing PMI provides an insight into what is driving the UK economy. The headline PMI reached a 13-month high in Mar as firms prepare for Brexit. Record growth in inventories and client led stockpiling of finished goods resulted in increased activity in Mar.

Headline Manufacturing PMI; Mar 55.1 versus Feb 52.1



Output increased at a faster pace as firms built up inventories of finished goods. New orders also increased as clients planned to stockpile finished goods ahead of Brexit.

Firms increased employment at a faster pace after declining in the two months prior.

The increase of stocks of purchases reached a record high – across key industry groups. Stocks of finished goods also increased at a 'record pace'.

Understandably, sentiment remained subdued as uncertainty over the form of Brexit continued to weigh.

Firms also cited concerns over future output growth as a result of the current stockpiling efforts.

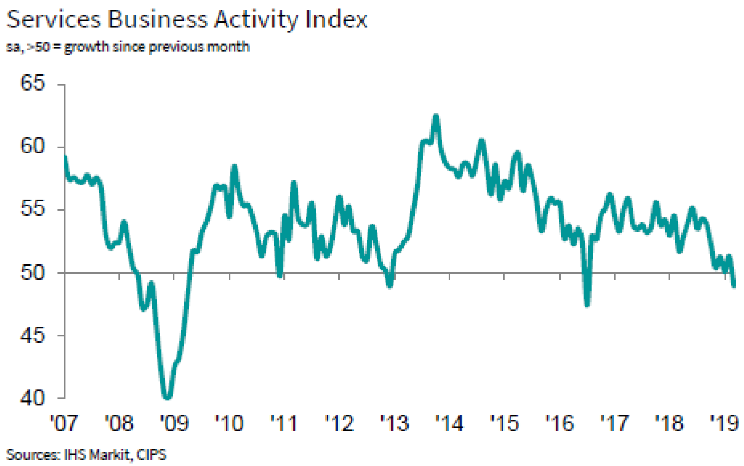
Average input purchase prices increased in Mar. Output charges also increased, but at a slower pace.

https://www.markiteconomics.com/Survey/PressRelease.mvc/8062928457f94913931debe1e7d75855

Services PMI (Mar)

In contrast, services activity fell into contraction in the latest month. This was the result of a decline in new orders/work as clients delayed projects/work as result of the uncertainty created by the Brexit process.

Headline Services Activity PMI; Mar 48.9 versus Feb 51.3.



New work continued to decline for the third month in a row. Respondents cited uncertainty regarding Brexit as the reason behind new work inflows. New work was affected both domestically and from abroad with new export work continuing to decline.

Firms continued to work through order/work backlogs, which has now declined for six months in a row.

Despite the weakening demand environment, employment grew slightly after falling in the prior two months. Firms continued to cite labour shortages as holding back hiring plans.

Input costs increased at the same rate as in Feb and remains at a 9-month low.

Business expectations remain subdued but have improved since Oct 2018.

https://www.markiteconomics.com/Survey/PressRelease.mvc/9a6bda42a1514dff866eb32623b7231e

Return to top

Australia

RBA Rates Decision – Apr 2019

At the Apr meeting, the RBA kept rates on hold. The overnight cash rate (OCR) remains at 1.5%.

Wording changes in the last paragraph signal a potential shift in the willingness to act on rates at future meetings;

From (March);

“the Board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time”

To APRIL;

“the Board judged that it was appropriate to hold the stance of policy unchanged **at this meeting.** The Board will continue to monitor developments and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time.”

Other adjustments between the last two months’ meetings reflected updates from various data releases. Areas of concern were the softer GDP result (2nd in a row), household consumption, weaker growth in real household disposable income. The RBA expects the labour market to continue to improve.

https://www.rba.gov.au/media-releases/2019/mr-19-07.html

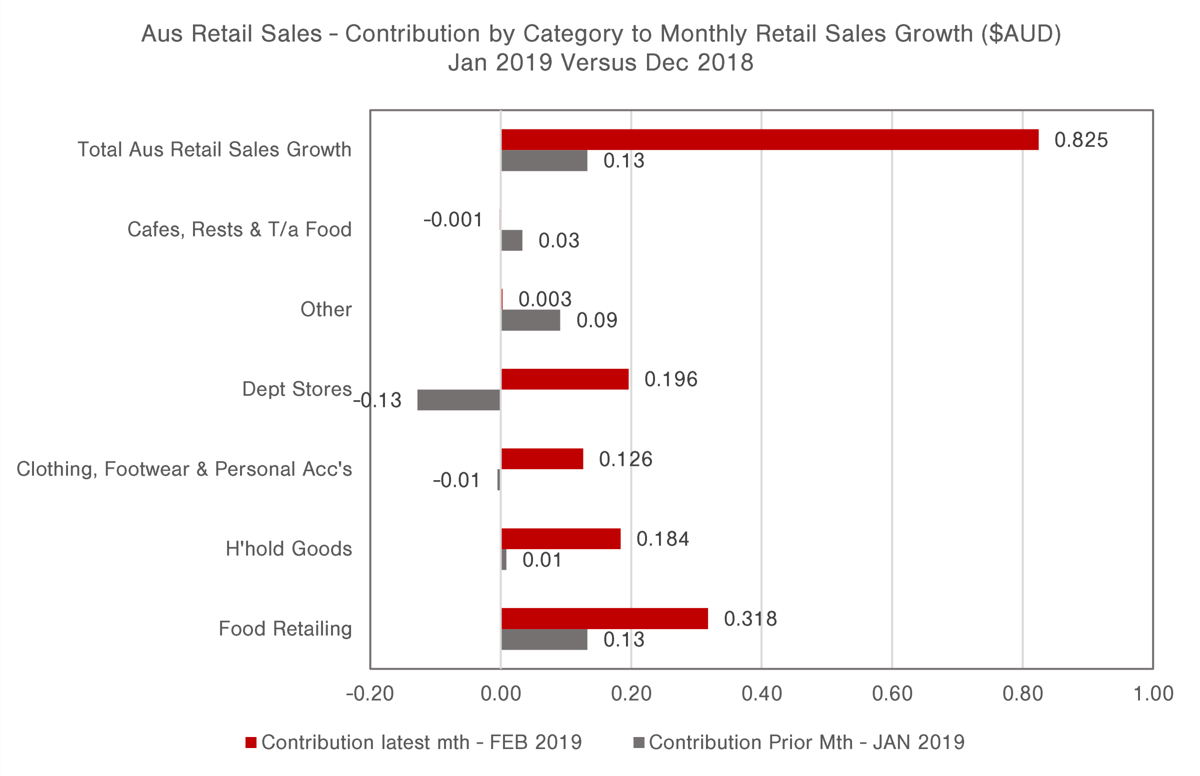
Retail Sales (Feb)

Retail sales in Aus grew at a faster pace in Feb after a weaker read in the two months prior. Most categories contributed to the higher growth in the month. This may help to allay the fears of policy makers over the impact of falling house prices on spending – but its only one month.

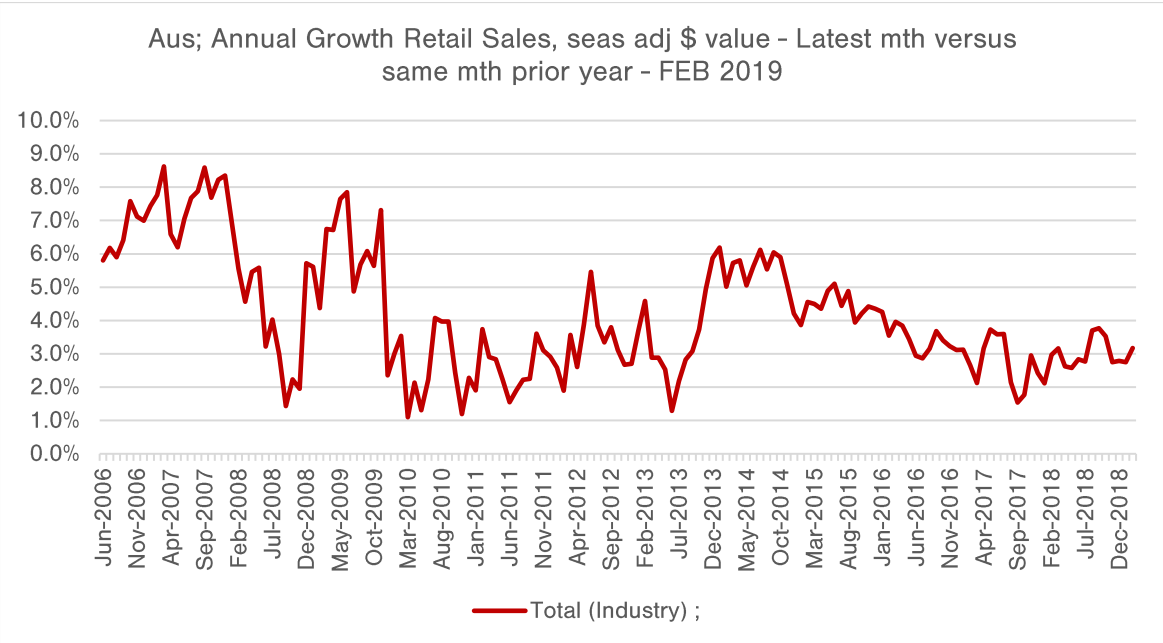
Retail Sales growth; Feb +0.8% versus Jan +0.1% (Dec -0.4%)

This was the strongest monthly growth in over a year.

There was a large improvement in sales across several areas with food retailing, household goods, clothing and footwear and dept stores all making a larger and positive contribution to sales in the latest month.



Annual growth in retail sales increased at a faster pace; Feb +3.2% versus the year prior, up from +2.7% in Jan (versus the year prior).



https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8501.0Main+Features1Feb%202019?OpenDocument

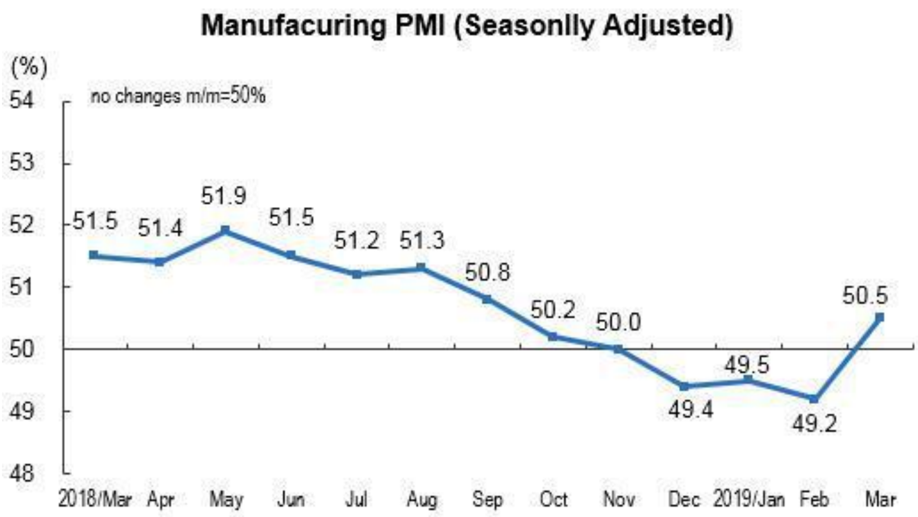
Return to top

China

NBS Manufacturing PMI (Mar)

The headline PMI shifted from contraction to slight expansion in the latest month. This was mostly the result of production and new orders moving into expansion for the month. The PMI's of larger sized enterprises remained in expansion while small to medium sized firms remained (slightly) in contraction territory but had improved markedly from the month prior.

Headline PMI; Mar 50.5 versus Feb 49.2



The PMI of large-sized enterprises; 51.1% (-0.4% versus the month prior).

The PMI of medium-sized enterprises; 49.9% (+3% versus the month prior).

The PMI of small firms; 49.3% (+4% versus the month prior).

The new orders index shifted from 50.6 to 51.6 – growing at an accelerated pace. New export orders remained in contraction at 47.1 and import orders were also 48.7 (but up from 44.8 in Feb). This suggests that the increase in demand was domestic on focus.

The employment index remained in contraction and was unchanged from the month prior.

http://www.stats.gov.cn/english/PressRelease/201904/t20190402_1657637.html

Caixin Manufacturing PMI's (Mar)

The headline index of manufacturing activity posted a similar gain shifting from a slight contraction in Feb to just above expansion in Mar. This was led by modest improvements in production and new orders. Improvements in employment levels were the key feature of this months' data.

Sources: IHS Markit, Caixin.

Production increased for the second month but remained modest overall. New orders increased at only a 'muted' pace. New export orders increased slightly.

Outstanding work continued to increase. Firms increased employment;

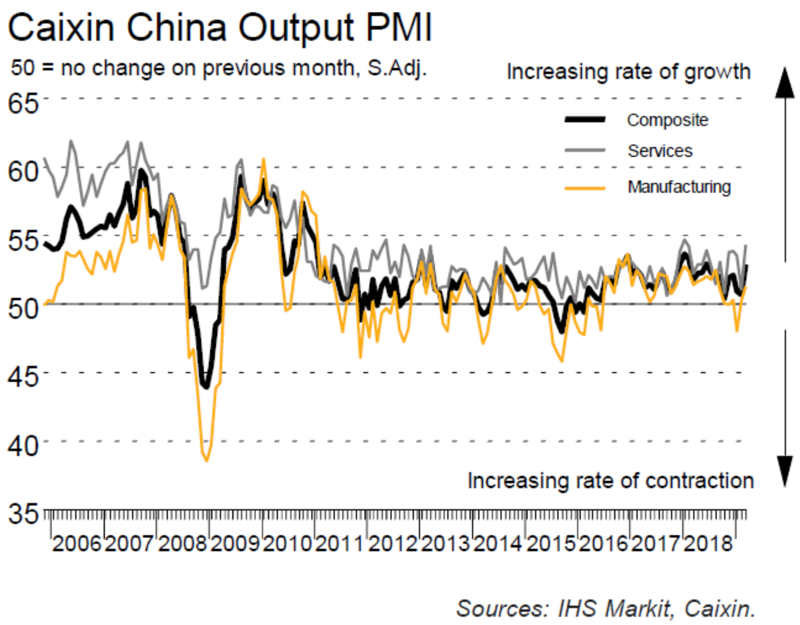
> "The output subindex continued to rise in expansionary territory. The employment subindex surged to a high not seen since January 2013. Data from the National Bureau of Statistics showed that the surveyed unemployment rate in urban areas for February was the highest since early 2017, causing concerns about the job market. The situation improved significantly in March, indicating easing pressure on employment."

https://www.markiteconomics.com/Survey/PressRelease.mvc/e84d001aabf0487a8c0649852c821bc8

Caixin Services PMI (Mar)

The headline business services index increased at a faster pace in Mar. Firms cited 'stronger underlying market conditions' as the reason behind the increase in activity

Services Business Activity Index; Mar 54.4 versus Feb 51.1



New orders increased at the fastest rate in over 14-months. This included new export sales which increased at the second fastest rate since Dec 2017.

Employment growth remain constant compared to Feb, increasing only ‘fractionally’.

Work outstanding continued to contract.

Input prices grew at a slower pace. Output price growth was only marginal and was unchanged from Feb.

Optimism within service firms increased to the highest level in 3-months – but “expectations remained weaker than their long-run trends”.

https://www.markiteconomics.com/Survey/PressRelease.mvc/081f0e16fa8142de82d5e0a32849de17

Return to top

Trade

US-China Trade Negotiations

Trade talks continued this week with USTR Lighthizer and Treasury Secretary Mnuchin meeting Chinese officials in Washington.

Comments from both sides now mostly seem to focus on 'shoring up' the confidence of markets. Although USTR LIghthizer was quoted as saying "still some major, major issues left in trade talks" (5 Apr).

Trade talks are expected to continue this coming week, with US President Trump saying a deal could be announced within the next four weeks.

Reconfirming what a 'win' in the negotiations with China looks like – a statement of the key goals as outlined by the USTR (emphasis added);

> The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture.**

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade

Special 2019 Section 301 Review

No further update on progress. Posted on the Federal Register by the USTR is a request for comments and a notification of a public hearing for the annual special S.301 review;

> to identify countries that deny adequate and effective protection of intellectual property rights (IPR) or deny fair and equitable market access to U.S. persons who rely on intellectual property protection.

The special 301 subcommittee will hold a hearing on 27 Feb 2019.

On 26 Apr 2019, the USTR will publish the 2019 special 301 report within 30 days of the National Trade Estimate Report.

https://www.federalregister.gov/documents/2018/12/28/2018-28319/request-for-comments-and-notice-of-a-public-hearing-regarding-the-2019-special-301-review

NAFTA/USMCA

The report by the US International Trade Commission on the economic impact of the new agreement is delayed due to the shutdown. The report was due 15 Mar but has now been postponed until mid-April.

> And some lawmakers are withholding their opinions until they see the results of a U.S. International Trade Commission report analyzing the economic impact of the deal, which likely won't be out until mid-April due to a delay from the 35-day government shutdown. https://www.politico.com/story/2019/03/07/trump-nafta-democrats-1247064

The focus now is to have the deal ratified by Congress before the summer.

> "Rep. Kevin Brady, ranking member on the House Ways and Means Committee, said U.S. Trade Representative Robert Lighthizer is ready to send legislation to lawmakers when House Speaker Nancy Pelosi "gives the green light." He called getting the deal to Trump's desk this summer "crucial."" https://www.cnbc.com/2019/03/29/trumps-nafta-usmca-trade-deal-faces-bipartisan-roadblock-in-congress.html

Section 232 – Car and Truck Imports

This week President Trump threatened a 25% tariff on Auto imports from Mexico if Mexican authorities did not make additional efforts to reduce the flow of illegal immigration into the US.

This prompted a response from eight (8) US trade organisations requesting President Trump not to place tariffs on the Auto industry;

> Eight US trade organizations have urged President Donald Trump not to impose import tariffs on cars and car parts, saying an investigation that could potentially legitimize the duties "poses serious economic threat" to US economy and the wellbeing of its auto industry. http://www.globaltimes.cn/content/1144757.shtml

The final report on the s 232 investigation has been provided to President Trump on 17 Feb. The President has 90 days to make a final decision on the recommendations.

> "Some analysts have considered the secrecy around the U.S. report on Section 232 tariffs as leverage which Trump likely intends to use in the U.S. trade negotiations with the EU."
>
> "We're trying to make a deal. They are very tough to make a deal with," Trump told reporters at the White House on Wednesday. "If we don't make a deal, we'll do the tariffs." http://www.xinhuanet.com/english/2019-02/23/c_137845093.htm

US-Japan Trade Talks

No further indication of when negotiations with Japan will commence. The commencement of talks could be delayed further, especially now that the US-China negotiations have been extended.

President Trump is due to meet with Prime Minister Shinzo Abe at the Group of 20 summit in Osaka in June. https://asia.nikkei.com/Economy/Trade-War/US-Japan-trade-talks-face-delay-as-Trump-focuses-on-China

https://ustr.gov/countries-regions/japan-korea-apec/japan/us-japan-trade-agreement-negotiations

The summary of negotiating objectives for the US-Japan trade talks have been published;

https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf

US-Europe Trade Talks

Awaiting further notice on the commencement of talks – likely to be delayed. The release of the S.232 investigation into car and truck imports is a key issue for European members (as well as Japan);

> "As the sword of Damocles hangs over the European automotive industry, the trade ministers discussed the bloc's trading relationship with Washington. European Trade Commissioner Cecilia Malmstrom has called on EU governments to decide soon to start negotiations with the United States.
>
> She also warned "there is full support" from member states to hit back if the United States were to levy the tariffs, escalating the transatlantic tension." http://www.xinhuanet.com/english/2019-02/23/c_137845093.htm

The summary of negotiating objectives for the US-EU trade talks have been published;

https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf

US-UK Trade Talks

The USTR has now published the summary of specific negotiating objectives for the US-UK trade negotiations; https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf

Return to top